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WEICHAI

潍柴动力股份有限公司

WEICHAI POWER CO., LTD.

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

(Stock Code: 2338)

**CONTINUING CONNECTED TRANSACTIONS,
PRC CONTINUING CONNECTED TRANSACTIONS,
AND
REPURCHASE OF A SHARES**

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

TRINITY

TRINITY CORPORATE FINANCE LIMITED

A letter from the Board is set out on pages 7 to 41 of this circular.

A letter from the independent financial adviser to the independent board committee and the independent shareholders of Weichai Power Co., Ltd. on the Continuing Connected Transactions (as defined in this circular) is set out on pages 43 to 64 of this circular.

Please refer to the EGM Notice (as defined in this circular) for details in respect of the resolutions to be considered at the EGM, eligibility of attendance, registration procedure, proxy and other relevant matters.

17 August 2018

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DEFINITIONS

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

“0.1% Threshold”	the thresholds referred to in Rule 14A.76(1)(a) of the Listing Rules
“1% Threshold”	the threshold referred to in Rule 14A.76(1)(b) of the Listing Rules
“5% Threshold”	the thresholds referred to in Rule 14A.76(2) of the Listing Rules
“A Share(s)”	the A Share(s), being ordinary share(s) issued, in the capital of the Company with a RMB denominated par value of RMB1.00 each and are listed on the Shenzhen Stock Exchange
“A Shareholders’ Class Meeting”	the class meeting of the holders of A Shares to be convened and held on Friday, 14 September 2018 for the purpose of approving the Specific Approval
“Article of Association”	the articles of association of the Company
“Baudouin China”	博杜安(濰坊)動力有限公司 (Baudouin (Weifang) Power Co., Ltd.*), a company established in the PRC and a subsidiary of the Company
“Board”	the board of Directors
“Chongqing Branch”	the Company’s facility (being its branch office) in Chongqing Municipality, the PRC
“Chongqing Casting”	重慶市江津區重濰鑄造有限公司 (Chongqing City Jiangjin District Chongwei Casting Co. Ltd.*), a company established in the PRC which was subsequently deregistered
“Chongqing Weichai”	重慶濰柴發動機有限公司 (Chongqing Weichai Diesel Engine Company Limited*) (formerly known as 重慶濰柴發動機廠 (Chongqing Weichai Diesel Engine Factory*)), a Company established in the PRC and a connected person of the Company
“Company”	濰柴動力股份有限公司 (Weichai Power Co., Ltd.), a company established in the PRC with limited liability

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“connected person(s)”	has the meaning ascribed thereto under the Listing Rules
“Continuing Connected Transaction(s)”	the continuing connected transaction(s) of the Group set out in the section headed “II. The Continuing Connected Transactions” in the letter from the Board contained in this circular
“Dezhou Degong”	德州德工機械有限公司 (Dezhou Degong Machinery Co., Ltd.*), a company established in the PRC and a connected person of the Company
“Director(s)”	the director(s) of the Company
“EGM”	the extraordinary general meeting of the Company to be held on 14 September 2018 to consider and, if thought fit, approve the Specific Approval, the New Caps and the Supplemental Agreements in respect of the Non-exempt Continuing Connected Transactions and the relevant new caps and PRC Supplemental Agreement in respect of the PRC Continuing Connected Transactions
“EGM Notice”	the notice of the Company convening the EGM dated 17 July 2018
“Exempt Continuing Connected Transaction(s)”	being those continuing connected transaction(s) of the Group exempt from circular, independent financial advice and shareholders’ approval requirements pursuant to Rule 14A.101 of the Listing Rules, or the proposed new caps for which do not exceed the 5% Threshold and, accordingly, are not subject to the approval by the Independent Shareholders under the Listing Rules, and, where such new caps exceed the 0.1% Threshold or the 1% Threshold, are only subject to the reporting, announcement and annual review requirements of Chapter 14A of the Listing Rules
“Existing Cap(s)”	the existing cap(s) for the Continuing Connected Transactions set out in the section headed “II. The Continuing Connected Transactions” in the letter from the Board contained in this circular

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“Fast Transmission”	陝西法士特汽車傳動集團有限責任公司 (Shaanxi Fast Gear Automotive Transmission Co. Ltd.), a company established in the PRC and a connected person of the Company
“Group”	the Company and its subsidiaries, and “Group Company” means any of the same
“H Share(s)”	the H Share(s), being the overseas listed foreign share(s) issued, in the capital of the Company with a RMB denominated par value of RMB1.00 each and are listed on the main board of the Stock Exchange
“Huadong Casting”	山東華動鑄造有限公司 (Shandong Huadong Casting Co., Ltd*), a company established in the PRC and a subsidiary of the Company
“Independent Board Committee”	a committee of the Board comprising Mr. Zhang Zhong, Mr. Wang Gongyong, Mr. Ning Xiangdong, Mr. Li Hongwu and Mr. Wen Daocai, being the independent non- executive Directors
“Independent Financial Adviser”	Trinity Corporate Finance Limited, the independent financial adviser appointed by the Company to advise the Independent Board Committee and the Independent Shareholders in respect of the Continuing Connected Transactions
“Independent Shareholders”	Shareholders who are not required to abstain from voting at the EGM in respect of the Continuing Connected Transactions
“Latest Practicable Date”	10 August 2018, 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 of Hong Kong Limited
“Merger”	the Merger on 24 April 2007 (as announced in the announcement of the Company dated 25 April 2007), as a result of which the original subsidiaries of TAGC, together with other the assets and liabilities of TAGC, were absorbed by the Company
“New Cap(s)”	as defined in the section headed “II. The Continuing Connected Transactions” in the letter from the Board contained in this circular

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“Non-exempt Continuing Connected Transaction(s)”	being those Continuing Connected Transaction(s) at the Company level, the proposed New Caps for which exceed the 5% Threshold, and accordingly, they will be subject to the reporting requirements, the announcement requirement and the annual review requirements under the Listing Rules, and approval from the Independent Shareholders at the EGM will be required
“PRC”	the People’s Republic of China
“PRC Continuing Connected Transaction(s)”	the continuing connected transaction(s) set out under the section headed “III. PRC Continuing Connected Transactions” in the letter from the Board contained in this circular, which constitute continuing connected transaction(s) of the Company under the relevant laws and regulations of the PRC and the Shenzhen Listing Rules and are subject to the approval by the Shareholders at the EGM. For details, please refer to the announcement of the Company entitled 《潍柴動力股份有限公司日常持續性關聯交易公告》 (“Announcement of Weichai Power Co., Ltd. in respect of its Continuing Connected Transactions in the Ordinary Course of Business”) dated 13 July 2018 on the Shenzhen Stock Exchange
“PRC Supplemental Agreements”	the supplemental agreements relating to the PRC Continuing Connected Transactions entered into between the Group and the relevant connected persons as more particularly set out in the section headed “III. PRC Continuing Connected Transactions” in the letter from the Board contained in this circular, and “PRC Supplemental Agreement” means any of them
“RMB”	Renminbi, the lawful currency of the PRC
“SFGC”	陝西法士特齒輪有限責任公司 (Shaanxi Fast Gear Co. Ltd.), a company established in the PRC and a 51% subsidiary of the Company
“SFO”	Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong)

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“Shandong Heavy Industry”	山東重工集團有限公司 (Shandong Heavy Industry Group Co., Ltd.), a substantial shareholder and connected person of the Company holding the entire capital of Weichai Holdings
“Shareholder(s)”	holder(s) of the shares of the Company
“Shenzhen Listing Rules”	《股票上市規則》 (“listing rules”) of the Shenzhen Stock Exchange
“Specific Approval”	as defined in the section headed “V. Repurchase of A Shares” in the letter from the Board contained in this circular
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Supplemental Agreements”	the supplemental agreements relating to the Continuing Connected Transactions entered into between the Group and the relevant connected persons as more particularly set out in the sections headed “II. The Continuing Connected Transactions” in the letter from the Board contained in this circular, and “Supplemental Agreement” means any of them
“TAGC”	湘火炬汽車集團股份有限公司 (Torch Automotive Group Co., Ltd.*), a company established in the PRC and has ceased to exist
“Weichai After-sales Services”	濰柴(濰坊)後市場服務有限公司 (Weichai (Weifang) After-sales Market Services Co., Ltd.*) (formerly known as 濰柴動力備品資源公司 (Weichai Power Reserves and Resources Company*)), a company established in the PRC and a subsidiary of the Company
“Weichai Casting”	濰柴動力(濰坊)鑄鍛有限公司 (Weichai Power (Weifang) Casting Co., Ltd.*), a company established in the PRC and a subsidiary of the Company
“Weichai Electric Equipment”	濰柴電力設備有限公司 (Weichai Electric Equipment Co., Ltd.*) (formerly known as 濰柴重機(濰坊)發電設備有限公司 (Weichai Heavy-duty Machinery (Weifang) Generator Equipment Co., Ltd.*) and 濰柴發電設備有限公司 (Weichai Generator Equipment Co., Ltd.*)), a company established in the PRC and a connected person of the Company

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“Weichai Heavy Machinery”	濰柴重機股份有限公司 (Weichai Heavy-duty Machinery Co., Ltd.*) (formerly known as 山東巨力股份有限公司 (Shandong Juli Company Limited*)), a company established in the PRC and a connected person of the Company
“Weichai Holdings”	濰柴控股集團有限公司 (Weichai Group Holdings Limited*) (formerly known as 濰坊柴油機廠 (Weifang Diesel Engine Works*)), a legal person established in the PRC, a substantial shareholder of the Company and a connected person of the Company
“Weichai Holdings Juli Restructuring”	the restructuring of the assets of Weichai Holding and the group of entities concerning Weichai Heavy Machinery as more particularly set out in the announcement of Weichai Heavy Machinery on the Shenzhen Stock Exchange dated 8 September 2006
“Weichai Import and Export”	山東濰柴進出口有限公司 (Shandong Weichai Import and Export Co., Ltd.*), a company established in the PRC wholly-owned by Weichai Holdings and a connected person of the Company
“Weichai Logistics”	濰柴動力(濰坊)集約配送有限公司 (Weichai Power (Weifang) Intensive Logistics Co., Ltd.*), a company established in the PRC and a wholly-owned subsidiary of the Company
“Weichai Reproduction”	濰柴動力(濰坊)再製造有限公司 (Weichai Power (Weifang) Reconstruction Co., Ltd.*), a company established in the PRC and a subsidiary of the Company
“Weichai Yangzhou”	濰柴動力揚州柴油機有限責任公司 (Weichai Power Yangzhou Diesel Engine Co., Ltd.), a company established in the PRC and a subsidiary of the Company
“Yangzhou Shengda”	揚州盛達特種車有限公司 (Yangzhou Shengda Special Vehicles Co., Ltd.), a company established in the PRC, wholly-owned by Weichai Holdings and a connected person of the Company

* For identification purpose only

If there is any inconsistency between the Chinese name of the entities mentioned in this circular and their English translation, the Chinese version shall prevail.

LETTER FROM THE BOARD



WEICHAI

潍柴動力股份有限公司

WEICHAI POWER CO., LTD.

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

(Stock Code: 2338)

Executive Directors:

Tan Xuguang (*Chairman and Chief Executive Officer*)
Zhang Quan (*Executive President*)
Xu Xinyu (*Executive President*)
Sun Shaojun (*Executive President*)
Yuan Hongming (*Executive President*)
Yan Jianbo (*Executive President*)

Non-executive Directors:

Wang Yuepu
Jiang Kui
Gordon Riske
Michael Martin Macht

Independent Non-executive Directors:

Zhang Zhong
Wang Gongyong
Ning Xiangdong
Li Hongwu
Wen Daocai

Supervisors:

Lu Wenwu
Ma Changhai
Wu Hongwei

Registered office:

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

*Principal place of business
in Hong Kong:*

Rooms 3407-3408
34th Floor, Gloucester Tower
Landmark
15 Queen's Road Central
Central, Hong Kong

17 August 2018

*To: Holders of H Shares
Holders of A Shares*

Dear Sir or Madam,

**CONTINUING CONNECTED TRANSACTIONS,
PRC CONTINUING CONNECTED TRANSACTIONS,
AND
REPURCHASE OF A SHARES**

I. INTRODUCTION

It was announced by the Board on 13 July 2018 that on 13 July 2018, the Company entered into, *inter alia*, the Supplemental Agreements in respect of the Continuing Connected

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Transactions. This circular gives you further information in relation to the Continuing Connected Transactions (being Non-exempt Continuing Connected Transactions) and contains the advice of the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders in relation to the Continuing Connected Transactions.

As disclosed in the said announcement, the Company also entered into certain Supplemental Agreements in respect of the PRC Continuing Connected Transactions as set out in the section headed “III. PRC Continuing Connected Transactions” in this circular.

II. THE CONTINUING CONNECTED TRANSACTIONS

The Continuing Connected Transactions include the following:

Name of connected person	Name of Group Company	Connected person's relationship with the Group	Nature of the connected transaction with the Group
1. Weichai Holdings (and its associates) <i>(note 1)</i>	The Company, Weichai After-sales Services, Weichai Casting, Weichai Reproduction, and Weichai Logistics <i>(note 2)</i>	Holder of 17.12% of the equity of the Company	Sale of diesel engines, diesel engine parts and components, materials, semi-finished products, hydraulic products and related products and provision of processing services by the Company (and its subsidiaries) to Weichai Holdings (and its associates)
2. Weichai Heavy Machinery (and its subsidiaries) <i>(note 3)</i>	The Company, Weichai After-sales Services, Weichai Casting, Weichai Reproduction, Huadong Casting, Weichai Logistics, Weichai Yangzhou and Baudouin China <i>(note 2)</i> (as the case may be)	Held as to 30.59% by Weichai Holdings	(a) Sale of diesel engines and related products by the Company (and its subsidiaries) to Weichai Heavy Machinery (and its subsidiaries) (b) Supply of semi-finished diesel engine parts, diesel engine parts and components, reserve parts and related products and provision of labour services by the Company (and its subsidiaries) to Weichai Heavy Machinery (and its subsidiaries)

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Notes:

1. The associates of Weichai Holdings are Chongqing Weichai, Weichai Import and Export, Yangzhou Shengda and Dezhou Degong.
2. Each of Weichai After-sales Services, Weichai Casting, Weichai Reproduction, Huadong Casting and Weichai Logistics is a direct or indirect wholly-owned subsidiary of the Company. Weichai Yangzhou is indirectly held as to approximately 66.78% by the Company. Baudouin China is directly held as to approximately 50.98% and indirectly held as to approximately 49.02% by the Company.
3. The subsidiary of Weichai Heavy Machinery is Weichai Electric Equipment, being a wholly-owned subsidiary of Weichai Heavy Machinery.

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

**Connected person and details
of the relevant Continuing**

Connected Transactions	2018	2019	New Caps	
	<i>RMB</i>	<i>RMB</i>	2020	2021
			<i>RMB</i>	<i>RMB</i>
1. Weichai Holdings (and its associates)				
Sale of diesel engines, diesel engine parts and components, materials, semi-finished products, hydraulic products and related products and provision of processing services by the Company (and its subsidiaries) to Weichai Holdings (and its associates)	2,610,000,000 [#]	3,475,000,000 [#]	4,610,000,000 [#]	–
2. Weichai Heavy Machinery (and its subsidiaries)				
(a) Sale of diesel engines and related products by the Company (and its subsidiaries) to Weichai Heavy Machinery (and its subsidiaries)	–	570,000,000 [#]	650,000,000 [#]	750,000,000 [#]
(b) Supply of semi-finished diesel engine parts, diesel engine parts and components, reserve parts and related products and provision of labour services by the Company (and its subsidiaries) to Weichai Heavy Machinery (and its subsidiaries)	–	150,000,000 [#]	180,000,000 [#]	220,000,000 [#]

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Notes:

1. Where a New Cap is marked “#”, that means the proposed New Caps for the relevant Continuing Connected Transaction exceed the 5% Threshold and are subject to the approval by the Independent Shareholders.
2. For the purposes of ascertaining whether a Continuing Connected Transaction would exceed the 5% Threshold, all the Continuing Connected Transactions have been aggregated

Details of the Continuing Connected Transactions and the relevant Supplemental Agreements

The Company and its subsidiaries

The Company is principally engaged in the research and development, manufacture and sale of high-speed heavy-duty diesel engines and engine parts. Chongqing Branch is the Company’s facility (being its branch office) in Chongqing Municipality.

Weichai After-sales Services is a wholly-owned subsidiary of the Company and is principally engaged in the sale of parts and components of diesel engines.

Weichai Casting is a wholly-owned subsidiary of the Company and is principally engaged in the supply of casting products and related services.

Weichai Reproduction is a wholly-owned subsidiary of the Company and is principally engaged in the reproduction of parts and components of vehicles.

Huadong Casting is an indirect wholly-owned subsidiary of the Company and is principally engaged in casting and sale of engine parts.

Weichai Logistics is a wholly-owned subsidiary of the Company and is principally engaged in general transportation, storage, delivery and basic assembly of machine accessories and power.

Weichai Yangzhou is indirectly held as to approximately 66.78% by the Company and is principally engaged in the design, development, manufacture, sale and maintenance of diesel engines.

Baudouin China is directly held as to approximately 50.98% and indirectly held as to approximately 49.02% by the Company and is principally engaged in the manufacture, sale, design, research and development of diesel engines and related products.

1. Continuing Connected Transactions between Weichai Holdings (and its associates) and the Group

Weichai Holdings and its associates

Weichai Holdings and Chongqing Weichai are principally engaged in the management, investment and the provision of general services.

Weichai Import and Export is principally engaged in the import and export of certain products including diesel engine parts and components and the provision of the relevant service.

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Yangzhou Shengda is principally engaged in the manufacturing and sale of automobiles, semi-trailers and modified vehicles.

Dezhou Degong is principally engaged in the research and manufacture, production, sale, maintenance, lease of wheel-loaders, road building and maintenance machineries and components, and relevant technical consulting.

Weichai Holdings is a substantial shareholder of the Company, and is accordingly a connected person of the Company. Chongqing Weichai, Weichai Import and Export and Yangzhou Shengda are wholly-owned subsidiaries of Weichai Holdings and are, accordingly, associates of Weichai Holdings and connected persons of the Company.

Dezhou Degong is a wholly-owned subsidiary of Shandong Heavy Industry, the holding company of Weichai Holdings. Hence, Dezhou Degong is an associate of Weichai Holdings and a connected person of the Company.

Sale of diesel engines, diesel engine parts and components, materials, semi-finished products, hydraulic products and related products and provision of processing services by the Company (and its subsidiaries) to Weichai Holdings (and its associates)

- Agreement: Supplemental Agreement to the diesel engines, diesel engine parts and components, materials and related products sale and provision of processing services agreement between (i) the Company, Weichai Aftersales Services and (ii) Weichai Holdings, Chongqing Casting, Weichai Import and Export and Chongqing Weichai ("**Weichai Sale and Processing Services Agreement**") dated 27 November 2008 (as supplemented by the supplemental agreements dated 23 August 2010, 29 August 2013, 30 August 2016 and 30 August 2017, respectively)
- Date: 13 July 2018
- Parties:
1.
 - (a) The Company
 - (b) Weichai After-sales Services
 - (c) Weichai Casting
 - (d) Weichai Reproduction
 - (e) Weichai Logistics
 2.
 - (a) Weichai Holdings
 - (b) Weichai Import and Export
 - (c) Chongqing Weichai
 - (d) Yangzhou Shengda
 - (e) Dezhou Degong
- Term: 1 January 2018 to 31 December 2020

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Other terms and details:

Pursuant to the Weichai Sale and Processing Services Agreement (as supplemented by the above supplemental agreements but prior to the entering into of this Supplemental Agreement), the Company (and Chongqing Branch), Weichai After-sales Services, Weichai Casting, Weichai Reproduction, Weichai Logistics and/or other Group Company (as the case may be) has sold diesel engines, diesel engine parts and components, materials, semi-finished products and related products and to provide the processing services (as the case may be) to Weichai Holdings, Weichai Import and Export, Chongqing Weichai and/or other associates of Weichai Holdings (as the case may be) at market prices and settled on a monthly basis, for a term ending 31 December 2019, upon the expiry of which the parties shall have an option to renew the same for a period of three years on a mutually agreed basis.

Pursuant to this Supplemental Agreement, the Company (and Chongqing Branch), Weichai After-sales Services, Weichai Casting, Weichai Reproduction, Weichai Logistics and/or other Group Company (as the case may be) shall sell the said diesel engines, diesel engine parts and components, materials, semi-finished products, hydraulic products and related products and to provide the said processing services (as the case may be) to Weichai Holdings, Weichai Import and Export, Chongqing Weichai, Yangzhou Shengda, Dezhou Degong and/or other associates of Weichai Holdings (as the case may be) at market prices and settled on a monthly basis. The said Supplemental Agreement shall be effective for a term of three years ending 31 December 2020. Save as set out herein, all other terms of the Weichai Sale and Processing Services Agreement (as supplemented by the abovementioned supplemental agreements but prior to the entering into of this latest Supplemental Agreement) as set out above remain unchanged.

The price of the said products shall be determined according to the following mechanism: the marketing department of the Company regularly conducts market research and analysis regarding specific products, in which a number of factors, including the overall market prices, market shares, ordering situation and performance of major competitors of such products, are comprehensively considered and submits a price suggestion after its analysis to the Company's price management department and the final prices are determined at arm's length negotiation among the parties. The price management department of the Company regularly reviews the reasonableness of prices and makes amendments when necessary. The Group generally adopts the same pricing mechanism as described above regardless of whether the customer is a connected person or an independent third party. The Directors are of the view that the abovementioned methods and procedures under the pricing policies can ensure that this Continuing Connected Transaction is conducted on normal commercial terms, on terms no less favourable to the Group than those available to independent third parties and not prejudicial to the interests of the Company and its minority Shareholders.

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The table below summarises the Existing Caps for the three years ending 31 December 2019 for this Continuing Connected Transaction set out in this sub-section 1:

	2017	2018	2019
	<i>RMB</i>	<i>RMB</i>	<i>RMB</i>
Existing Cap	1,100,000,000	1,250,000,000	1,400,000,000

The table below summarises the actual transaction amounts involved for the two years ended 31 December 2017 (audited) and the six months ended 30 June 2018 (unaudited) for this Continuing Connected Transaction set out in this sub-section 1:

	Year ended 31 December		Six months ended
	2016	2017	30 June
	<i>RMB</i>	<i>RMB</i>	<i>RMB</i>
	<i>(audited)</i>	<i>(audited)</i>	<i>(unaudited)</i>
Actual transaction amount	508,930,264	881,739,148	782,079,968

Due to the favourable environment in the industry and the strong demand for the Group's products, the transaction amount of the sale of the abovementioned products and processing services by the Group to Weichai Holdings (and its associates) has increased substantially for the first six months of 2018. Further, Dezhou Degong, a company principally engaged in the research and manufacture, production, sale, maintenance, lease of wheel-loaders, road building and maintenance machineries and components, and relevant technical consulting, was recently acquired by Shandong Heavy Industry in June 2018 and became an associate of Weichai Holdings and a connected person of the Company thereafter. Prior to Dezhou Degong becoming a connected person of the Company, the transaction amounts in respect of the sale of diesel engines, hydraulic parts and related products by the Group to Dezhou Degong for the two years ended 31 December 2017 and the five months ended 31 May 2018 amounted to approximately RMB35,862,400, RMB50,537,600 and RMB48,370,000, respectively. The Company anticipates that in order for Dezhou Degong to meet its production plans, there will be an increase in the number of diesel engines, hydraulic parts and related products required by Dezhou Degong from the Group.

The Company estimates that the transaction amounts for this Continuing Connected Transaction for the three years ending 31 December 2020 will not exceed RMB2,610 million, RMB3,475 million and RMB4,610 million, respectively, and such amounts have accordingly been set as the proposed New Caps for this Continuing Connected Transaction.

The above proposed New Caps have been estimated by the Company primarily based on (i) the relevant historical costs, and (ii) the estimate of the number of diesel engines, diesel engine parts and components, materials, semi-finished products and hydraulic products and related products required by Weichai Holdings, Weichai Import

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and Export, Chongqing Weichai, Yangzhou Shengda and Dezhou Degong (as the case may be) in view of the implementation of the Group's "2020–2030 Strategy", the average unit prices of the same, and the costs of the processing services to be provided. The Group's "2020–2030 Strategy" outlines the development strategy of the Group which aims for the outperformance of the Group's traditional businesses against global top standards by 2020 and the Group's new energy business becoming a global industry leader by 2030. Pursuant to such strategy, the Group's target is to generate a revenue of US\$100 billion for the year ending 31 December 2030. In order to achieve such goal, it is expected that the overall transaction amount of the relevant sale of products and services under the Weichai Sale and Processing Services Agreement will have to increase steadily at a year-to-year growth rate of not less than 30%. For the information of Shareholders, the Company estimates that approximately 48,000 diesel engines at the unit price ranging from RMB10,000 to RMB55,000 and approximately 25,000 units of major parts and components at the unit price ranging from RMB10,000 to RMB57,000 will be sold in 2018. Taking into account and on the basis of all the aforesaid factors, it is estimated that the overall transaction amount of the said sale of products and services will grow by approximately 33.1% and 32.7% for each of the years ending 31 December 2019 and 31 December 2020, respectively.

The table below summarises the proposed New Caps for this Continuing Connected Transaction for the three years ending 31 December 2020:

	2018	2019	2020
	<i>RMB</i>	<i>RMB</i>	<i>RMB</i>
New Cap	2,610,000,000	3,475,000,000	4,610,000,000

As the highest percentage ratio calculated in accordance with the Listing Rules for this Continuing Connected Transaction for the three years ending 31 December 2020 (when aggregated with the proposed New Caps for the same period in respect of the Continuing Connected Transactions set out under sub-sections 2.(a) and 2.(b)) exceeds the 5% Threshold, this Continuing Connected Transaction constitutes a Non-exempt Continuing Connected Transaction of the Company for the relevant period, and the proposed New Caps for the relevant period are subject to the reporting and announcement requirements, the annual review requirements, and the Independent Shareholders' approval requirements under Chapter 14A of the Listing Rules.

Since this Continuing Connected Transaction (on an aggregated basis) is a Non-exempt Continuing Connected Transaction, this Supplemental Agreement and the proposed New Caps are subject to the relevant resolution being passed at the EGM.

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2. Continuing Connected Transactions between Weichai Heavy Machinery (and its subsidiaries) and the Group

Weichai Heavy Machinery is principally engaged in the manufacture and sale of medium-speed diesel engines and diesel engine parts and components, power generators and related products, and construction machinery and the provision of repair processing services for machinery parts.

Weichai Electric Equipment is a wholly-owned subsidiary of Weichai Heavy Machinery and is principally engaged in the research and development, production, sale and repair of power generators, pump units, air compressor units, hydraulic pump units and their respective components and the import and export of permitted goods and technology.

Weichai Heavy Machinery is an associate of Weichai Holdings (a substantial shareholder of the Company), and accordingly, Weichai Heavy Machinery and Weichai Electric Equipment are connected persons of the Company.

- (a) *Sale of diesel engines and related products by the Company (and its subsidiaries) to Weichai Heavy Machinery (and its subsidiaries)*

Agreement:	Supplemental Agreement to the framework agreement between the Company and Weichai Holdings dated 17 November 2003 (“ Weichai Heavy Machinery Sale Agreement ”) (as supplemented by the supplemental agreements dated 15 September 2004, 12 November 2006, 9 June 2007, 27 November 2008, 13 August 2009, 23 August 2010, 30 August 2012, 29 August 2013 and 27 August 2015, respectively)
Date:	13 July 2018
Parties:	<ol style="list-style-type: none"><ol style="list-style-type: none">The CompanyWeichai ReproductionWeichai YangzhouBaudouin China<ol style="list-style-type: none">Weichai Heavy MachineryWeichai Electric Equipment
Term:	1 January 2019 to 31 December 2021

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Other terms and details:

Pursuant to the Weichai Heavy Machinery Sale Agreement (as supplemented by the abovementioned supplemental agreements but prior to the entering into of this latest Supplemental Agreement), the Company, Weichai Reproduction, Weichai Yangzhou, Baudouin China (and/or other Group Company) (as the case may be) has sold certain diesel engines and related products to Weichai Heavy Machinery, Weichai Electric Equipment and/or other subsidiaries of Weichai Heavy Machinery (as the case may be) at market prices and settled on a monthly basis, for a term ending 31 December 2018, upon the expiry of which the parties may renew the term for another three years on a mutually agreed basis.

Pursuant to this latest Supplemental Agreement, the Company, Weichai Reproduction, Weichai Yangzhou and Baudouin China (and/or other Group Company) (as the case may be) shall sell to Weichai Heavy Machinery, Weichai Electric Equipment and/or other associates of Weichai Heavy Machinery (as the case may be) the said diesel engines and related products at market prices and settled on a monthly basis, for a term of three years ending 31 December 2021, upon the expiry of which the parties may renew the term for another three years on a mutually agreed basis. Save as set out herein, all other terms of the Weichai Heavy Machinery Sale Agreement (as supplemented by the abovesaid supplemental agreements but prior to the entering into of this latest Supplemental Agreement) shall remain unchanged.

The price of the said products shall be determined according to the following mechanism: the marketing department of the Company regularly conducts market research and analysis regarding specific products and comprehensively considers the costs of such products in order to formulate its pricing proposal which will be put before the price management department of the Company for approval, and the final prices are determined at arm's length negotiation among the parties. The price management department of the Company regularly reviews the reasonableness of prices and makes amendments when necessary. The Group generally adopts the same pricing mechanism as described above regardless of whether the customer is a connected person or an independent third party. The Directors are of the view that the abovementioned methods and procedures under the pricing policies can ensure that this Continuing Connected Transaction is conducted on normal commercial terms, on terms no less favourable to the Group than those available to independent third parties and not prejudicial to the interests of the Company and its minority Shareholders.

The table below summarises the Existing Caps for the three years ending 31 December 2018 for this Continuing Connected Transaction set out in this sub-section 2.(a):

	2016	2017	2018
	<i>RMB</i>	<i>RMB</i>	<i>RMB</i>
Existing Cap	450,000,000	600,000,000	800,000,000

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The table below summarises the actual transaction amounts involved for two years ended 31 December 2017 (audited) and the six months ended 30 June 2018 (unaudited) for this Continuing Connected Transaction set out in this sub-section 2.(a):

	Year ended 31 December		Six months ended
	2016	2017	30 June
	<i>RMB</i>	<i>RMB</i>	<i>2018</i>
	(audited)	(audited)	(unaudited)
Actual transaction amount	211,086,484	263,119,895	190,307,834

The Company is a leading manufacturer of diesel engines in the PRC and this evidences the quality and competitiveness of the Group's diesel engines generally. With the proximity between the Company's production facilities and those of Weichai Heavy Machinery, and in view of the high quality and the competitiveness of the Company's engines, the Company believes that Weichai Heavy Machinery will continue to purchase the Group's diesel engines for the manufacture of power generators. In addition, increase in demand for the vessels sold by Weichai Heavy Machinery will also in turn lead to an increase in the sales of the vessel engines by the Group to Weichai Heavy Machinery. The Group has also sold certain diesel engines to Weichai Generator Equipment for its manufacture of generator sets.

The utilization rate of the Existing Caps remained relatively low during the term of the Weichai Heavy Machinery Sale Agreement, which the Board considers, was primarily due to the lower than expected sales of engines and engine parts used in boats and ships in view of the continuous sluggish shipping and ship-manufacturing markets and an increasingly competitive business environment on a global scale. Taking into account the relatively low utilization rate of approximately 47.58% of the Existing Caps for the six months ended 30 June 2018, the historical year-on-year increase of the actual transaction amount of this Continuing Connected Transaction, as well as the expected prospect as set out above, the Board proposed that New Cap for the year ending 31 December 2019 be adjusted downward to RMB570,000,000 from the Existing Cap of RMB800,000,000 for the year ending 31 December 2018.

In line with the current market conditions in respect of the said diesel engines, the Company estimates that the transaction amounts for this Continuing Connected Transaction set out in this sub-section 2.(a) for the three years ending 31 December 2021 will not exceed RMB570,000,000, RMB650,000,000 and RMB750,000,000, respectively, and such amounts have accordingly been set as the proposed New Caps for this Continuing Connected Transaction. These estimates have also referred to the estimated salary growth rate and an expected increase in the sales of the said diesel engines by the Company to Weichai Heavy Machinery and Weichai Generator Equipment by approximately 14.0% and 15.4% for each of the years ending 31 December 2020 and 31 December 2021, respectively.

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The table below summarises the New Caps for this Continuing Connected Transaction set out in this subsection 2.(a) for the three years ending 31 December 2021:

	2019 RMB	2020 RMB	2021 RMB
New Cap	570,000,000	650,000,000	750,000,000

As the highest percentage ratio calculated in accordance with the Listing Rules for this Continuing Connected Transaction for the three years ending 31 December 2021 (when aggregated with the proposed New Caps for the same period in respect of the Continuing Connected Transactions set out under sub-sections 1 and 2.(b)) exceeds the 5% Threshold, this Continuing Connected Transaction constitutes a Non-exempt Continuing Connected Transaction of the Company for the relevant period, and the proposed New Caps for the relevant period are subject to the reporting and announcement requirements, the annual review requirements, and the Independent Shareholders' approval requirements under Chapter 14A of the Listing Rules.

Since this Continuing Connected Transaction (on an aggregated basis) is a Non-exempt Continuing Connected Transaction, this Supplemental Agreement and the proposed New Caps are subject to the relevant resolution being passed at the EGM.

(b) *Supply of semi-finished diesel engine parts, diesel engine parts and components, reserve parts and related products and provision of labour services by the Company (and its subsidiaries) to Weichai Heavy Machinery (and its subsidiaries)*

Agreement: Supplemental Agreement to the semi-finished diesel engine parts supply agreement ("**Weichai Heavy Machinery Supply Agreement**") dated 17 November 2003 between the Company and Weichai Holdings (as supplemented by supplemental agreements dated 15 September 2004, 12 November 2006, 9 June 2007, 9 November 2009, 29 August 2011, 29 August 2013 and 27 August 2015, respectively)

Date: 13 July 2018

Parties:

1. (a) The Company
(b) Weichai Reproduction
(c) Weichai After-sales Services
(d) Weichai Casting
(e) Huadong Casting
(f) Weichai Logistics
2. (a) Weichai Heavy Machinery
(b) Weichai Electric Equipment

Term: 1 January 2019 to 31 December 2021

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Other terms and details:

Pursuant to the Weichai Heavy Machinery Supply Agreement (as supplemented by the abovesaid supplemental agreements but prior to the entering into of this latest Supplemental Agreement), each of the Company, Weichai Reproduction, Weichai After-sales Services, Weichai Casting, Huadong Casting and Weichai Logistics (and/or their subsidiaries) has sold certain semi-finished diesel engine parts, diesel engine parts and components, reserve parts and related products and provided the relevant labour services (as the case may be) to Weichai Heavy Machinery, Weichai Electric Equipment and/or other associates of Weichai Heavy Machinery (as the case may be) at market prices and settled on a monthly basis for a term ending 31 December 2018, upon the expiry of which the parties may renew the term for another three years on a mutually agreed basis.

Pursuant to this latest Supplemental Agreement, each of the Company, Weichai Reproduction, Weichai After-sales Services, Weichai Casting, Huadong Casting and Weichai Logistics (and/or other Group companies) has agreed to sell the said semi-finished diesel engine parts, diesel engine parts and components, reserve parts and related products and to provide the relevant labour services (as the case may be) to Weichai Heavy Machinery, Weichai Electric Equipment and/or other associates of Weichai Heavy Machinery (as the case may be) at market prices and settled on a monthly basis for a term of three years ending 31 December 2021, upon the expiry of which the parties may renew the term for another three years on a mutually agreed basis. Save as set out herein, all other terms of the Weichai Heavy Machinery Supply Agreement (as supplemented by the abovesaid supplemental agreements, but prior to the entering into of this latest Supplemental Agreement) remain unchanged.

The price of the said products shall be determined according to the following mechanism: the marketing department of the Company regularly conducts market research and analysis regarding specific products, in which a number of factors, including the overall market prices, market shares, ordering situation and performance of major competitors of such products, are comprehensively considered in order to formulate its pricing proposal which will be put before the price management department of the Company for approval, and the final prices are determined at arm's length negotiation among the parties. The price management department of the Company regularly reviews the reasonableness of prices and makes amendments when necessary. The Group generally adopts the same pricing mechanism as described above regardless of whether the customer is a connected person or an independent third party. The Directors are of the view that the abovementioned methods and procedures under the pricing policies can ensure that this Continuing Connected Transaction is conducted on normal commercial terms, on terms no less favourable to the Group than those available to independent third parties and not prejudicial to the interests of the Company and its minority Shareholders.

The table below summarises the Existing Caps for the three years ending 31 December 2018 for this Continuing Connected Transaction set out in this sub-section 2.(b):

	2016	2017	2018
	<i>RMB</i>	<i>RMB</i>	<i>RMB</i>
Existing Cap	300,000,000	400,000,000	520,000,000

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The table below summarises the actual transaction amounts involved for the two years ended 31 December 2017 (audited) and the six months ended 30 June 2018 (unaudited) for this Continuing Connected Transaction set out in this sub-section 2.(b):

	Year ended 31 December		Six months ended
	2016	2017	30 June
	<i>RMB</i>	<i>RMB</i>	<i>2018</i>
	(audited)	(audited)	(unaudited)
Actual transaction amount	57,228,667	83,871,772	40,613,792

The Company is a leading manufacturer of diesel engines in the PRC and this evidences the quality and competitiveness of the Company's diesel engines generally. With the proximity between the Company's production facilities and those of Weichai Heavy Machinery, and in view of the high quality and the competitiveness of the Company's products, the Company believes that Weichai Heavy Machinery and its subsidiaries will continue to purchase the Group's semi-finished diesel engine parts, diesel engine parts and components, reserve parts and related products for the manufacture of its products, including medium-speed diesel engines and power generators. In view of the economic growth in the PRC in recent years and the strong demand for the products of Weichai Heavy Machinery and its subsidiaries, which shall in turn drive the demand for the Group's said products and labour services by Weichai Heavy Machinery and its subsidiaries, it is expected that the transaction amount for this Continuing Connected Transaction will increase steadily for the three years ending 31 December 2021.

As illustrated above, the utilization rate of the Existing Caps remained low during the term of the Weichai Heavy Machinery Supply Agreement, which the Board considers, was primarily due to the lower than expected sales of engines and engine parts used in boats and ships in view of the continuous sluggish shipping and ship-manufacturing markets and an increasingly competitive business environment on a global scale. Taking into account the low utilization rate of approximately 15.62% of the Existing Caps for the six months ended 30 June 2018, the historical year-on-year increase of the actual transaction amount of this Continuing Connected Transaction, as well as the expected prospect as set out above, the Board proposed that New Cap for the year ending 31 December 2019 be adjusted downward to RMB150,000,000 from the Existing Cap of RMB520,000,000 for the year ending 31 December 2018.

The Company estimates that the sale of the said semi-finished diesel engine parts, diesel engine parts and components, reserve parts and related products and the provision of the relevant labour services by the Group to Weichai Heavy Machinery and its associates for the three years ending 31 December 2021 will not exceed RMB150,000,000, RMB180,000,000 and RMB220,000,000, respectively, and such amounts have accordingly been set as the proposed New Caps for this Continuing Connected Transaction.

The proposed New Caps have been prepared by the Company primarily based on (i) the historical costs, (ii) the estimate of the volume of the said semi-finished diesel engine

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parts, diesel engine parts and components, reserve parts and related products required by Weichai Heavy Machinery and its subsidiaries, (iii) the average unit prices of the said semi-finished diesel engine parts, diesel engine parts and components, reserve parts and related products, and (iv) the assumption that the transaction amount of the provision of the said products and labour services by the Group to Weichai Heavy Machinery and its subsidiaries will increase by approximately 20% and 22.2% for each of the years ending 31 December 2020 and 31 December 2021, respectively. For the information of Shareholders, the Company estimates that approximately 67,000 units of major semi-finished diesel engine parts and diesel engine parts and components at the unit price ranging from RMB400 to RMB6,000 will be sold in 2019.

The table below summarises the New Caps for this Continuing Connected Transaction set out in this sub-section 2.(b):

	2019	2020	2021
	<i>RMB</i>	<i>RMB</i>	<i>RMB</i>
New Cap	150,000,000	180,000,000	220,000,000

As the highest percentage ratio calculated in accordance with the Listing Rules for this Continuing Connected Transaction for the three years ending 31 December 2021 (when aggregated with the proposed New Caps for the same period in respect of the Continuing Connected Transactions set out under sub-sections 1 and 2.(a)) exceeds the 5% Threshold, this Continuing Connected Transaction constitutes a Non-exempt Continuing Connected Transaction of the Company for the relevant period, and the proposed New Caps for the relevant period are subject to the reporting and announcement requirements, the annual review requirements, and the Independent Shareholders' approval requirements under Chapter 14A of the Listing Rules.

Since this Continuing Connected Transaction (on an aggregated basis) is a Non-exempt Continuing Connected Transaction, this Supplemental Agreement and the proposed New Caps are subject to the relevant resolution being passed at the EGM.

III. PRC CONTINUING CONNECTED TRANSACTIONS

Reference is made to the announcement of the Company dated 13 July 2018 on the Stock Exchange and the announcement of the Company dated 13 July 2018 on the Shenzhen Stock Exchange, which announced that the Company has entered into certain Exempt Continuing Connected Transactions which constitute PRC Continuing Connected Transactions. A summary of the PRC Continuing Connected Transactions and the relevant new caps are set out below:

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PRC Continuing Connected Transactions

Connected person and details of the relevant PRC Continuing Connected Transactions	2018	2019	New caps 2020	2021
	<i>RMB</i>	<i>RMB</i>	<i>RMB</i>	<i>RMB</i>
1. Weichai Holdings (and its associates)				
Supply and/or connection of utilities by Weichai Holdings (and its associates) to the Company (and its subsidiaries)	650,000,000	740,000,000	840,000,000	–
2. Weichai Heavy Machinery (and its subsidiaries)				
Purchase of diesel engine parts and components, materials, steel and scrap metal, etc., diesel engines and related products and processing and labour services by the Company (and its subsidiaries) from Weichai Heavy Machinery (and its subsidiaries)	550,000,000	630,000,000	720,000,000	–
3. Fast Transmission				
(a) Sale of parts and components of transmissions and related products by SFGC to Fast Transmission	–	3,850,000,000	5,000,000,000	6,420,000,000
(b) Purchase of parts and components of transmissions and related products and labour services by SFGC from Fast Transmission	–	7,100,000,000	9,150,000,000	11,700,000,000

In respect of the abovementioned PRC Continuing Connected Transactions, the Company shall revise the existing caps and/or apply for a new caps.

As set out in the announcement of the Company dated 13 July 2018, the PRC Continuing Connected Transactions constitute Exempt Continuing Connected Transactions and are, accordingly, not subject to the approval of the Independent Shareholders under Chapter 14A of the Listing Rules. However, according to the relevant laws and regulations of the PRC and the Shenzhen Listing Rules, the PRC Continuing Connected Transactions are subject to the approval by the Shareholders at the EGM.

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A summary of the salient terms of the PRC Supplemental Agreements is set out below for Shareholders' information.

1. Continuing Connected Transactions between Weichai Holdings (and its associates) and the Group

Supply and/or connection of utilities by Weichai Holdings (and its associates) to the Company (and its subsidiaries)

Agreement: PRC Supplemental Agreement to:

- (i) the utility services agreement between the Company and Weichai Holdings dated 17 November 2003 ("**Weichai Holdings Utilities Services Agreement**") (as supplemented by the supplemental agreements dated 15 September 2004, 21 September 2005, 12 November 2006, 27 November 2008, 23 August 2010, 29 August 2013, 27 August 2015 and 30 August 2016, respectively); and
- (ii) the utility services agreement between the Company and Chongqing Weichai dated 17 November 2003 ("**Chongqing Weichai Utilities Services Agreement**") (as supplemented by the supplemental agreements dated 15 September 2004, 21 September 2005, 12 November 2006, 27 November 2008, 23 August 2010, 29 August 2013, 27 August 2015 and 30 August 2016, respectively)

Date: 13 July 2018

Parties:

1.
 - (a) The Company
 - (b) Weichai Casting
 - (c) Weichai Reproduction
 - (d) Huadong Casting
 - (e) Weichai Logistics
2.
 - (a) Weichai Holdings
 - (b) Chongqing Weichai

Term: 1 January 2018 to 31 December 2020

Other terms and details:

- (i) *Supply and/or connection of utilities by Weichai Holdings to the Company and Weichai Casting*

Pursuant to the Weichai Holdings Utilities Services Agreement (as supplemented by the abovementioned supplemental agreements but prior to the

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entering into of this latest PRC Supplemental Agreement), Weichai Holdings (and its associates) (as the case may be) has provided or provided the connection of (as the case may be) certain utility and energy services to the Company, Weichai Casting, Weichai Reproduction, Huadong Casting, Weichai Logistics and/or other Group Company (as the case may be), namely, water, electricity, gas, steam, oxygen, nitrogen, compressed air, waste water treatment and supply of treated waste water, etc., for a term ending 31 December 2019, upon the expiry of which the parties shall have an option to renew the same for a term of three years on a mutually agreed basis.

Pursuant to this latest PRC Supplemental Agreement, Weichai Holdings (and its associates) (as the case may be) shall provide or provide the connection of (as the case may be) the said services to the Company, Weichai Casting, Weichai Reproduction, Huadong Casting, Weichai Logistics and/or other Group Company (as the case may be) for a period of three years ending 31 December 2020. Save as set out herein, all other terms of the Weichai Holdings Utilities Services Agreement (as supplemented by the abovementioned supplemental agreements but prior to the entering into of this latest PRC Supplemental Agreement) remain unchanged.

The fees payable by the Company, Weichai Casting, Weichai Reproduction, Huadong Casting, Weichai Logistics and/or other Group Company (as the case may be) to Weichai Holdings (and its associates) (as the case may be) with respect to the provision and/or connection of the said utility and energy services are determined based on the actual usage by the Company, Weichai Casting, Weichai Reproduction, Huadong Casting, Weichai Logistics and/or other Group Company (as the case may be) and by reference to the market prices of such utilities. If only government published rates are available with respect to certain utilities, the fees payable would be determined by reference to the government published rates plus the wastage, depreciation and repair expenses incurred by Weichai Holdings (and its associates) (as the case may be) in relation thereto. If no market price or government published rates with respect to the above utility and energy services are available, the Company, Weichai Casting, Weichai Reproduction, Huadong Casting, Weichai Logistics and/or other Group Company (as the case may be) will pay the actual costs incurred by Weichai Holdings (and its associates) (as the case may be) in relation to the provision of such utility and energy services plus a service charge representing not more than 20% of such costs. The fees are settled on a monthly basis. The Group generally adopts the same pricing mechanism as described above regardless of whether the supplier is a connected person or an independent third party. The Directors are of the view that the abovementioned methods and procedures under the pricing policies can ensure that this PRC Continuing Connected Transaction is conducted on normal commercial terms, on terms no less favourable to the Group than those available to independent third parties and not prejudicial to the interests of the Company and its minority Shareholders.

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(ii) Supply and/or connection of utilities by Chongqing Weichai to the Company

Pursuant to the Chongqing Weichai Utilities Services Agreement (as supplemented by the abovementioned supplemental agreements but prior to the entering into of this latest Supplemental Agreement), Chongqing Weichai (and its associates) (as the case may be) has provided or provided the connection of (as the case may be) certain utility and energy services to the Chongqing Branch and/or other Group Company (as the case may be), namely, water, electricity, natural gas, steam, oxygen, nitrogen and compressed air, etc. for a term ending 31 December 2019, upon the expiry of which the parties shall have an option to renew the same for a term of three years on a mutually agreed basis.

Pursuant to this latest PRC Supplemental Agreement, Chongqing Weichai (and its associates) (as the case may be) shall provide or provide the connection of (as the case may be) the said services to the Chongqing Branch and/or other Group Company (as the case may be) for a period of three years ending 31 December 2020. Save as set out herein, all other terms of the Chongqing Weichai Utilities Services Agreement (as supplemented by the abovementioned supplemental agreements but prior to the entering into of this latest PRC Supplemental Agreement) remain unchanged.

The fees payable by the Company and/or other Group Company (as the case may be) to Chongqing Weichai (and its associates) (as the case may be) in respect of the relevant utility and energy services are determined based on the usage thereof by the Chongqing Branch and/or other Group Company (as the case may be) or, if it is not possible to measure such usage, pro-rated according to the respective sales of Chongqing Weichai and the Chongqing Branch and/or other Group Company (as the case may be) and by reference to the market prices of such utilities. If only government published rates are available with respect to certain utilities, the fees payable will be determined by reference to the government published rates plus the wastage, depreciation and repair expenses incurred by Chongqing Weichai (and its associates) (as the case may be) in relation to the provision of the relevant utilities. If no market prices or government published rates with respect to any of the above utilities are available, the Company and/or other Group Company (as the case may be) will pay the costs incurred by Chongqing Weichai (and its associates) (as the case may be) in relation to the provision of the above utility and energy services plus a service charge representing not more than 20% of such costs. The fees are settled on a monthly basis. The Directors are of the view that the abovementioned methods and procedures under the pricing policies can ensure that this PRC Continuing Connected Transaction is conducted on normal commercial terms and not prejudicial to the interests of the Company and its minority Shareholders.

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The table below summarises the existing caps for the three years ending 31 December 2019 for the PRC Continuing Connected Transaction set out in paragraphs (i) and (ii) in this sub-section 1:

	2017	2018	2019
	<i>RMB</i>	<i>RMB</i>	<i>RMB</i>
Existing cap	390,000,000	410,000,000	420,000,000

The table below summarises the actual transaction amounts involved for the two years ended 31 December 2017 (audited) and the six months ended 30 June 2018 (unaudited) for the PRC Continuing Connected Transaction set out in paragraphs (i) and (ii) in this sub-section 1:

	Year ended 31 December		Six months ended
	2016	2017	30 June
	<i>RMB</i>	<i>RMB</i>	<i>RMB</i>
	<i>(audited)</i>	<i>(audited)</i>	<i>(unaudited)</i>
Actual transaction amount	260,484,008	358,820,994	206,560,469

The Company estimates that the transaction amounts in respect of the PRC Continuing Connected Transaction set out in paragraphs (i) and (ii) in this sub-section 1 for the three years ending 31 December 2020 will not exceed RMB650 million, RMB740 million and RMB840 million, respectively, and such amounts have accordingly been set as the proposed new caps for this PRC Continuing Connected Transaction.

The above proposed new caps have been estimated by the Company primarily based on (i) the relevant historical costs incurred plus a service charge by Weichai Holdings and Chongqing Weichai representing not exceeding 20% of such costs, and (ii) the estimate of the sales of the Group's products in view of the implementation the Group's "2020–2030 Strategy". Taking into account and on the basis of all the aforesaid factors, it is estimated that the overall transaction amount of the said provision of services will increase by approximately 13.8% and 13.5% for each of the years ending 31 December 2019 and 31 December 2020, respectively.

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The table below summarises the proposed new caps for the PRC Continuing Connected Transaction set out in paragraphs (i) and (ii) in this sub-section 1 for the three years ending 31 December 2020:

	2018	2019	2020
	RMB	RMB	RMB
New cap	650,000,000	740,000,000	840,000,000

As the new caps for this PRC Continuing Connected Transaction for the three years ending 31 December 2020 do not exceed the 5% Threshold, this PRC Continuing Connected Transaction constitutes an Exempt Continuing Connected Transaction of the Company under Chapter 14A of the Listing Rules and will be subject to the reporting, announcement and annual review requirements of Chapter 14A of the Listing Rules.

Since this PRC Continuing Connected Transaction for the three years ending 31 December 2020 is an Exempt Continuing Connected Transaction, the new caps are not subject to the approval of Independent Shareholders under the Listing Rules.

However, as this is a PRC Continuing Connected Transaction, the relevant new caps and the PRC Supplemental Agreement are subject to the approval by the Shareholders at the EGM.

2. **Continuing Connected Transactions between Weichai Heavy Machinery (and its subsidiaries) and the Group**

Purchase of diesel engine parts and components, materials, steel and scrap metal etc., diesel engines and related products and processing and labour services by the Company (and its subsidiaries) from Weichai Heavy Machinery (and its subsidiaries)

Agreement: PRC Supplemental Agreement to the diesel engine parts and components, materials, steel and scrap metal, etc. and related products purchase and processing services agreement between (i) the Company and Weichai After-sales Services and (ii) Weichai Heavy Machinery dated 27 November 2008 (as supplemented by the supplemental agreements dated 23 August 2010, 29 August 2013 and 30 August 2016, respectively) ("**Weichai Heavy Machinery Purchase and Processing Services Agreement**")

Date: 13 July 2018

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- Parties:
1. (a) The Company
(b) Weichai After-sales Services
(c) Weichai Casting
(d) Weichai Reproduction
(e) Huadong Casting
(f) Weichai Logistics
(g) Baudouin China
 2. (a) Weichai Heavy Machinery
(b) Weichai Electric Equipment

Term: 1 January 2018 to 31 December 2020

Other terms and details:

Pursuant to the Weichai Heavy Machinery Purchase and Processing Services Agreement (as supplemented by the above supplemental agreements but prior to the entering into of this PRC Supplemental Agreement), the Company (and Chongqing Branch), Weichai After-sales Services, Weichai Casting, Weichai Reproduction, Huadong Casting, Weichai Logistics, Baudouin China, Weichai Singapore Pte. Ltd. and/or other Group Company (as the case may be) have purchased certain diesel engine parts and components, steel and scrap metal etc., materials, diesel engines and processing and labour services from Weichai Heavy Machinery, Weichai Electric Equipment and/or other associates of Weichai Heavy Machinery (as the case may be) at market prices and settled on a monthly basis, for a term ending 31 December 2019, upon the expiry of which the parties shall have an option to renew the term for another three years on a mutually agreed basis.

Pursuant to this PRC Supplemental Agreement, the Company (and Chongqing Branch), Weichai After-sales Services, Weichai Casting, Weichai Reproduction, Huadong Casting, Weichai Logistics, Baudouin China and/or other Group Company (as the case may be) shall purchase the said parts and components, steel and scarp metal etc., materials, diesel engines and processing and labour services from Weichai Heavy Machinery, Weichai Electric Equipment and/or other associates of Weichai Heavy Machinery (as the case may be) at market prices and settled on a monthly basis. This Supplemental Agreement shall be effective for a term of three years ending 31 December 2020. Save as set out herein, all other terms of the Weichai Heavy Machinery Purchase and Processing Services Agreement (as supplemented by the abovementioned supplemental agreements but prior to the entering into of this latest PRC Supplemental Agreement) remain unchanged.

The price of the said products shall be determined according to the following mechanism: the marketing department of the Company regularly conducts market research and analysis regarding specific products, in which a number of factors, including the overall market prices, market shares, ordering situation and performance of major competitors of such products, are comprehensively considered and submits a price suggestion after its analysis to the Company's price management department and the final prices are determined at arm's length negotiation among the parties. The price

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management department of the Company regularly reviews the reasonableness of prices and makes amendments when necessary. The Group generally adopts the same pricing mechanism as described above regardless of whether the supplier is a connected person or an independent third party. The Directors are of the view that the abovementioned methods and procedures under the pricing policies can ensure that this Continuing Connected Transaction is conducted on normal commercial terms, on terms no less favourable to the Group than those available to independent third parties and not prejudicial to the interests of the Company and its minority Shareholders.

The table below summarises the existing caps for the three years ending 31 December 2019 the PRC Continuing Connected Transaction set out in this sub-section 2:

	2017	2018	2019
	<i>RMB</i>	<i>RMB</i>	<i>RMB</i>
Existing cap	330,000,000	370,000,000	410,000,000

The table below summarises the aggregate actual transaction amounts involved for the purchases and processing services for the two years ended 31 December 2017 (audited) and the six months ended 30 June 2018 (unaudited) for the PRC Continuing Connected Transaction set out in this sub-section 2:

	Year ended 31 December		Six months ended
	2016	2017	30 June
	<i>RMB</i>	<i>RMB</i>	<i>RMB</i>
	<i>(audited)</i>	<i>(audited)</i>	<i>(unaudited)</i>
Actual transaction amount	307,056,036	326,455,979	207,030,226

The Company estimates that the aggregate transaction amounts in respect of the PRC Continuing Connected Transaction set out in this sub-section 2 will not exceed RMB550 million, RMB630 million and RMB720 million for each of the three years ending 31 December 2020 and therefore such amount has accordingly been set as the proposed new caps for this PRC Continuing Connected Transaction.

The above proposed new caps have been estimated by the Company primarily based on (i) the relevant historical costs, (ii) the estimate of its production volume, having taken into account the development of the heavy-duty truck and construction machinery markets, the average unit prices of finished diesel engine parts in view of the implementation of the Group's "2020–2030 Strategy", and (iii) the market prices of the relevant raw materials, steel, scrap metal, diesel engines and related products and the costs of processing and labour services to be purchased by the Group. Taking into account and on the basis of all the aforesaid factors, it is estimated that the overall transaction amount of the said purchase of products and services will increase by approximately 14.5% and 14.3%, for each of the years ending 31 December 2019 and 31 December 2020, respectively.

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The table below summarises the proposed new caps for the PRC Continuing Connected Transaction set out in this sub-section 2 for the three years ending 31 December 2020:

	2018	2019	2020
	<i>RMB</i>	<i>RMB</i>	<i>RMB</i>
New cap	550,000,000	630,000,000	720,000,000

As the new caps for this PRC Continuing Connected Transaction for the three years ending 31 December 2020 do not exceed the 5% Threshold, this PRC Continuing Connected Transaction constitutes an Exempt Continuing Connected Transaction of the Company under Chapter 14A of the Listing Rules and will be subject to the reporting, announcement and annual review requirements of Chapter 14A of the Listing Rules.

Since this PRC Continuing Connected Transaction for the three years ending 31 December 2020 is an Exempt Continuing Connected Transaction, the new caps are not subject to the approval of the Independent Shareholders under the Listing Rules.

However, as this is a PRC Continuing Connected Transaction, the relevant new caps and the PRC Supplemental Agreement are subject to the approval by the Shareholders at the EGM.

3. Continuing Connected Transactions between SFGC and Fast Transmission

(a) *Sale of parts and components of transmissions and related products by SFGC to Fast Transmission*

Agreement: PRC Supplemental Agreement to the parts and components sale agreement ("**Fast Transmission Sale Agreement**") dated 1 August 2007 (as supplemented by the supplemental agreements dated 27 November 2008, 9 November 2009, 23 August 2010, 30 August 2012 and 27 August 2015, respectively)

Date: 13 July 2018

Parties: 1. SFGC
2. Fast Transmission

Term: 1 January 2019 to 31 December 2021

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Other terms and details:

Pursuant to the Fast Transmission Sale Agreement (as supplemented by the abovementioned supplemental agreements but prior to the entering into of this latest PRC Supplemental Agreement), SFGC has sold to Fast Transmission certain parts and components of transmissions, namely, gearboxes, and related products at market prices and settled by the parties generally every two to three months, for a term ending 31 December 2018, upon the expiry of which the parties shall have an option to renew the agreement for a term of three years on a mutually agreed basis.

Pursuant to this PRC Supplemental Agreement, SFGC has agreed to sell and Fast Transmission has agreed to purchase such parts and components and related products on the same terms for a term of three years ending 31 December 2021, upon the expiry of which the parties may renew the term for another three years on a mutually agreed basis. Save as set out herein, all other terms of the Fast Transmission Sale Agreement remain unchanged.

The price of the said products shall be determined according to the following mechanism: SFGC regularly conducts research and analysis regarding product prices in the market. Upon discussions with the price committee with reference to market prices and product costs, and on the basis of the thorough consideration of the interests of both parties, the final prices are determined at arm's length negotiation among the parties. The price management department of SFGC regularly reviews the reasonableness of prices and makes amendments when necessary. The Group generally adopts the same pricing mechanism as described above regardless of whether the customer is a connected person or an independent third party. The Directors are of the view that the abovementioned methods and procedures under the pricing policies can ensure that this PRC Continuing Connected Transaction is conducted on normal commercial terms, on terms no less favourable to the Group than those available to independent third parties and not prejudicial to the interests of the Company and its minority Shareholders.

The table below summarises the existing caps for the three years ending 31 December 2018 for the PRC Continuing Connected Transaction set out in this sub-section 3.(a):

	2016	2017	2018
	<i>RMB</i>	<i>RMB</i>	<i>RMB</i>
Existing cap	3,600,000,000	4,800,000,000	6,500,000,000

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The table below summarises the actual transaction amounts involved for the two years ended 31 December 2017 (audited) and the six months ended 30 June 2018 (unaudited) for the PRC Continuing Connected Transaction set out in this sub-section 3.(a):

	Year ended 31 December		Six months ended
	2016	2017	30 June
	<i>RMB</i>	<i>RMB</i>	<i>RMB</i>
	<i>(audited)</i>	<i>(audited)</i>	<i>(unaudited)</i>
Actual transaction amount	1,442,541,862	2,132,778,808	1,089,350,350

The Company estimates that the transaction amount for the PRC Continuing Connected Transaction set out in this sub-section 3. (a) for the three years ending 31 December 2021 will not exceed RMB3,850,000,000, RMB5,000,000,000 and RMB6,420,000,000, respectively and such amounts have accordingly been set as the proposed new caps for this PRC Continuing Connected Transaction.

The parts and components sold by SFGC to Fast Transmission pursuant to this PRC Continuing Connected Transaction are used by Fast Transmission in its manufacture of transmission products and parts and components of vehicles. With the expected increase in the production of heavy duty hydraulic automatic transmissions of SFGC and the expected improvement in the market, the Company expects that the sales of SFGC will increase by approximately 30% for each of the years ending 31 December 2020 and 31 December 2021. Accordingly, it is expected that the volume of the parts and components to be sold by SFGC to Fast Transmission for its processing will increase accordingly.

The proposed new caps have been prepared by the Company primarily based on (i) the historical transaction amounts, (ii) the estimate of the volume and amount of the said parts and components of transmissions to be sold by SFGC to Fast Transmission, and (iii) the assumption that the overall transaction amount of the sale of the said parts and components will increase by approximately 29.9% and 28.4% for each of the years ending 31 December 2020 and 31 December 2021, respectively.

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The table below summarises the new caps for the PRC Continuing Connected Transaction set out in this sub-section 3. (a) for the three years ending 31 December 2021:

	2019	2020	2021
	<i>RMB</i>	<i>RMB</i>	<i>RMB</i>
New cap	3,850,000,000	5,000,000,000	6,420,000,000

Since (i) Fast Transmission is regarded as a connected person of the Company at subsidiary level; (ii) the Board (including all the independent non-executive Directors) has approved this PRC Continuing Connected Transaction; and (iii) the independent non-executive Directors have confirmed that the terms of this PRC Continuing Connected Transaction and the new caps are fair and reasonable, on normal commercial terms or better and in the interests of the Company and the Shareholders as a whole, this PRC Continuing Connected Transaction is subject to the reporting and announcement requirements but is exempt from circular, independent financial advice and shareholders' approval requirements pursuant to Rule 14A.101 of the Listing Rules.

Since this PRC Continuing Connected Transaction for the three years ending 31 December 2021 is an Exempt Continuing Connected Transaction, this PRC Supplemental Agreement is not subject to the approval of the Independent Shareholders under the Listing Rules.

However, as this is a PRC Continuing Connected Transaction, the relevant new caps and the PRC Supplemental Agreement are subject to the approval by the Shareholders at the EGM.

(b) Purchase of parts and components of transmissions and related products and labour services by SFGC from Fast Transmission

Agreement: PRC Supplemental Agreement to the parts and components sale agreement ("**Fast Transmission Purchase Agreement**") dated 1 August 2007 (as supplemented by the supplemental agreements dated 27 November 2008, 9 November 2009, 23 August 2010, 30 August 2012 and 27 August 2015, respectively)

Date: 13 July 2018

Parties: 1. SFGC
2. Fast Transmission

Term: 1 January 2019 to 31 December 2021

LETTER FROM THE BOARD

Other terms and details:

Pursuant to the Fast Transmission Purchase Agreement (as supplemented by the abovementioned supplemental agreements but prior to the entering into of this latest PRC Supplemental Agreement), SFGC has purchased from Fast Transmission certain parts and components of transmissions and gears, namely, power take off assemblies and castings, and related products at market prices and settled by the parties generally every two to three months, for a term ending 31 December 2018, upon the expiry of which the parties shall have an option to renew the agreement for a term of three years on a mutually agreed basis.

Pursuant to this PRC Supplemental Agreement, SFGC has agreed to purchase and Fast Transmission has agreed to sell such parts and components and related products and labour services on the same terms for a term of three years ending 31 December 2021, upon the expiry of which the parties may renew the term for another three years on a mutually agreed basis. Save as set out herein, all other terms of the Fast Transmission Purchase Agreement remain unchanged.

The price of the said products shall be determined according to the following mechanism: through the analysis of the products in the market, taking into account other factors including the raw materials, remuneration cost, processing cost, SFGC shall conduct an analysis on the reasonableness of the relevant prices. A proposal on the price shall then be submitted to the price management department of SFGC for approval, after an analysis of the products and comparison of such costs with the costs submitted by Fast Transmission. The final price shall be determined based on arm's length negotiations between the parties. The price management department shall review the reasonableness of the price on a regular basis and make adjustments where necessary. The Group generally adopts the same pricing mechanism as described above regardless of whether the supplier is a connected person or an independent third party. The Directors are of the view that the abovementioned methods and procedures under the pricing policies can ensure that this PRC Continuing Connected Transaction is conducted on normal commercial terms, on terms no less favourable to the Group than those available to independent third parties and not prejudicial to the interests of the Company and its minority Shareholders.

The table below summarises the existing caps for the three years ending 31 December 2018 for the PRC Continuing Connected Transaction set out in this sub-section 3.(b):

	2016	2017	2018
	<i>RMB</i>	<i>RMB</i>	<i>RMB</i>
Existing cap	4,500,000,000	6,000,000,000	7,800,000,000

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The table below summarises the actual transaction amounts involved for the two years ended 31 December 2017 (audited) and the six months ended 30 June 2018 (unaudited) for the PRC Continuing Connected Transaction set out in this sub-section 3.(b):

	Year ended 31 December		Six months ended
	2016	2017	30 June
	<i>RMB</i>	<i>RMB</i>	<i>RMB</i>
	<i>(audited)</i>	<i>(audited)</i>	<i>(unaudited)</i>
Actual transaction amount	2,564,824,108	4,836,619,704	2,490,374,626

The Company estimates that the transaction amount for the PRC Continuing Connected Transaction set out in this sub-section 3.(b) for the three years ending 31 December 2021 will not exceed RMB7,100,000,000, RMB9,150,000,000 and RMB11,700,000,000 respectively and such amounts have accordingly been set as the proposed new caps for this PRC Continuing Connected Transaction.

The parts and components purchased by SFGC from Fast Transmission pursuant to this PRC Continuing Connected Transaction are used in its production. With the expected increase in the production of heavy duty hydraulic automatic transmissions of SFGC and the expected improvement in the market, the Company expects that the sales of SFGC will increase by approximately 30% for each of the years ending 31 December 2021. Accordingly, it is expected that the volume of the parts and components to be purchased by SFGC from Fast Transmission for its production will increase accordingly.

The proposed new caps have been prepared by the Company primarily based on (i) the historical transaction amounts, (ii) the estimate of the volume and amount of the said parts and components of transmissions and labour services to be purchased by SFGC from Fast Transmission, and (iii) the assumption that the overall transaction amount of the purchase of the said parts and components by SFGC will increase by approximately 28.9% and 27.9% for each of the years ending 31 December 2020 and 31 December 2021, respectively.

The table below summarises the new caps for the PRC Continuing Connected Transaction set out in this sub-section 3.(b) for the three years ending 31 December 2021:

	2019	2020	2021
	<i>RMB</i>	<i>RMB</i>	<i>RMB</i>
New cap	7,100,000,000	9,150,000,000	11,700,000,000

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Since (i) Fast Transmission is regarded as a connected person of the Company at subsidiary level; (ii) the Board (including all the independent non-executive Directors) has approved this PRC Continuing Connected Transaction; and (iii) the independent non-executive Directors have confirmed that the terms of this PRC Continuing Connected Transaction and the new caps are fair and reasonable, on normal commercial terms or better and in the interests of the Company and the Shareholders as a whole, this PRC Continuing Connected Transaction is subject to the reporting and announcement requirements but is exempt from circular, independent financial advice and shareholders' approval requirements pursuant to Rule 14A.101 of the Listing Rules.

Since this PRC Continuing Connected Transaction for the three years ending 31 December 2021 is an Exempt Continuing Connected Transaction, this PRC Supplemental Agreement is not subject to the approval of the Independent Shareholders under the Listing Rules.

However, as this is a PRC Continuing Connected Transaction, the relevant new caps and the PRC Supplemental Agreement are subject to the approval by the Shareholders at the EGM.

For further details, please refer to (i) the announcement of the Company entitled《潍柴動力股份有限公司日常持續性關聯交易公告》 (“Announcement of Weichai Power Co., Ltd. in respect of its Continuing Connected Transactions in the Ordinary Course of Business”) dated 13 July 2018 on the Shenzhen Stock Exchange and (ii) the announcement of the Company dated 13 July 2018 on the Stock Exchange.

IV. REASONS FOR THE CONTINUING CONNECTED TRANSACTIONS, PRC CONTINUING CONNECTED TRANSACTIONS AND LISTING RULES IMPLICATIONS

The Company is principally engaged in the research and development, manufacture and sale of high-speed, heavy-duty diesel engines. Prior to the incorporation of the Company and the listing of the Shares on the Stock Exchange, the Company has had business relationships with certain entities. Under the Listing Rules, such entities have become connected persons of the Company since the listing of the Company and the transactions between the Company and such entities constitute continuing connected transactions of the Company. In respect of the Continuing Connected Transaction and PRC Continuing Connected Transaction between the Company and Weichai Holdings, since their production facilities are located in close proximity to each other and in view of the PRC Government's policy not to duplicate construction of production and other facilities, such Continuing Connected Transaction and PRC Continuing Connected Transaction have been continuing since the listing of the Company on the Stock Exchange. After the completion of the Weichai Holdings Juli Restructuring in 2007, the Continuing Connected Transactions and PRC Continuing Connected Transaction with Weichai Holdings was transferred to Weichai Heavy Machinery.

As the Company has conducted these Continuing Connected Transactions and PRC Continuing Connected Transactions with the relevant entities for many years and the Company has built up a long term strategic and solid business relationship with these entities, the

LETTER FROM THE BOARD

Directors (including the independent non-executive Directors) consider it beneficial to the Company to continue to conduct these Continuing Connected Transactions and PRC Continuing Connected Transactions in order to ensure and maximize operating efficiency and stability of the operations of the Company. The Directors (including the independent non-executive Directors) are not aware of any disadvantage to the Group in continuing to conduct the Continuing Connected Transactions and PRC Continuing Connected Transactions.

As prior to completion of the Merger, SFGC has conducted the PRC Continuing Connected Transactions with Fast Transmission (and its associates) (as the case may be) for many years and the Company has taken up such PRC Continuing Connected Transactions after completion of the Merger, the Directors (including the independent non-executive Directors), consider it to be beneficial to the Company to continue to conduct such PRC Continuing Connected Transactions with Fast Transmission in order to ensure and maximise operating efficiency and stability of the operations of the Group.

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

The Directors (including the independent non-executive Directors after considering the advice of the Independent Financial Adviser in respect of the Continuing Connected Transactions) are of the view that all the Continuing Connected Transactions and PRC Continuing Connected Transactions, and the relevant proposed new caps, are fair and reasonable and in the interests of the Company and the Shareholders as a whole.

At the meeting of the Board on 13 July 2018 approving, *inter alia*, the Continuing Connected Transactions and PRC Continuing Connected Transactions, the following Directors have abstained from voting on the resolutions as follows, for the reasons of their respective interest and/or position (as the case may be) in the relevant connected persons:

- (i) Continuing Connected Transaction and PRC Continuing Connected Transactions with Weichai Holdings (and its associates) — Tan Xuguang, Jiang Kui, Zhang Quan, Xu Xinyu and Sun Shaojun;
- (ii) Continuing Connected Transactions and PRC Continuing Connected Transactions with Weichai Heavy Machinery (and its subsidiaries) — Tan Xuguang, Wang Yuepu, Jiang Kui, Zhang Quan, Xu Xinyu, Sun Shaojun; and
- (iii) PRC Continuing Connected Transactions with Fast Transmission — Yan Jianbo.

Save as disclosed above, no other Directors have any material interest in the Continuing Connected Transactions and the PRC Continuing Connected Transactions.

Listing Rules implications

As the highest percentage ratio calculated in accordance with the Listing Rules for the Continuing Connected Transactions exceed the 5% Threshold on an aggregated basis, they

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constitute Non-exempt Continuing Connected Transactions of the Company and their respective Supplemental Agreements and proposed New Caps will be subject to the reporting and announcement requirements, the annual review requirements, and the Independent Shareholders' approval requirements under Chapter 14A of the Listing Rules.

As set out in the announcement of the Company dated 13 July 2018, the PRC Continuing Connected Transactions constitute Exempt Continuing Connected Transactions and are, accordingly, not subject to the approval of the Independent Shareholders under Chapter 14A of the Listing Rules. However, according to the relevant laws and regulations of the PRC and the Shenzhen Listing Rules, the PRC Continuing Connected Transactions are subject to the approval by the Shareholders at the EGM.

V. REPURCHASE OF A SHARES

Special resolutions will be proposed at the EGM and the A Shareholders' Class Meeting, respectively, to consider and, if thought fit (a) approve the specific approval to be granted to the Board which will enable the Directors to repurchase the A Shares within the cap amount of RMB500 million (the "**Specific Approval**"), and (b) authorise the Directors to handle matters in relation to and associated with the Specific Approval, including, among others, the handling of the amendments of the Articles of Association according to the actual circumstances of the repurchase of A Shares. The effectiveness of the Specific Approval is subject to the approval of the Shareholders at the EGM, the approval of the holders of the A Shares at the A Shareholders' Class Meeting and the obtaining of all consents and approvals required for the Specific Approval from relevant regulatory authorities (if any).

Reference is made to the EGM Notice and the announcement of the Company dated 31 July 2018. Subject to further adjustment to the price cap of the repurchase from ex-right and ex-dividend date in view of bonus shares, capitalization, cash dividend, allotment or reduction of capital during the share repurchase period, it is proposed that the repurchase price of the A Shares shall not exceed RMB14.75 per A Share. The Company will repurchase its A Shares by taking into consideration the share price change during the implementation of the Specific Approval as well as the Company's operational condition. If the Specific Approval is fully implemented, based on the price cap, it is expected that the total number of A Shares repurchased will be not less than 33,898,305 A Shares, representing not less than 0.42% of the Company's total issued share capital. The period of the share repurchase shall commence on the date of passing of the respective resolutions at the EGM for a period of 12 months. If, during this period, the cap amount of RMB500 million has been reached, the Specific Approval would be fully implemented, and the validity of share repurchase would have ended in advance of its expiry.

The explanatory statement, as required under the Listing Rules, to provide the requisite information of the proposed Specific Approval to the Shareholders for consideration to make an informed decision as to whether to vote for or against the resolutions in respect of the Specific Approval was set out in the Appendix to the EGM Notice. Holders of A Shares of the Company please refer to the separate notice of the A Shareholders' Class Meeting published on the website of the Shenzhen Stock Exchange on 16 July 2018.

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VI. EGM

It was proposed that the Specific Approval, the relevant New Caps and the Supplemental Agreements in respect of the Continuing Connected Transactions and the relevant new caps and the PRC Supplemental Agreements in respect of the PRC Continuing Connected Transactions shall be considered and, if thought fit, approved at the EGM.

The EGM Notice setting out the resolutions in respect of the above matters, has been despatched on 17 July 2018. No Shareholder is required to abstain from voting in respect of the resolutions save the following:

- (i) for the resolutions in relation to the Continuing Connected Transaction and the PRC Continuing Connected Transaction with Weichai Holdings (and its associates), (1) Weichai Holdings and its associates (if any) (which held 1,369,475,617 A Shares, representing approximately 17.12% of the issued share capital of the Company, as at the Latest Practicable Date), (2) Mr. Tan Xuguang, Mr. Zhang Quan, Mr. Xu Xinyu and Mr. Sun Shaojun, being executive Directors (who together held 99,895,568 A Shares, representing approximately 1.25% of the issued share capital of the Company, as at the Latest Practicable Date), and (3) Mr. Wu Hongwei and Mr. Lu Wenwu, being supervisors of the Company (who together held 5,389,516 A Shares, representing approximately 0.07% of the issued share capital of the Company, as at the Latest Practicable Date), will abstain from voting at the EGM;
- (ii) for the resolutions in relation to the Continuing Connected Transactions and the PRC Continuing Connected Transaction with Weichai Heavy Machinery (and its subsidiaries), (1) Weichai Holdings and its associates (if any) (which held 1,369,475,617 A Shares, representing approximately 17.12% of the issued share capital of the Company, as at the Latest Practicable Date), (2) Mr. Tan Xuguang, Mr. Zhang Quan, Mr. Xu Xinyu and Mr. Sun Shaojun, being executive Directors (who together held 99,895,568 A Shares, representing approximately 1.25% of the issued share capital of the Company, as at the Latest Practicable Date), and (3) Mr. Wu Hongwei, a supervisor of the Company (who held 4,789,516 A Shares, representing approximately 0.06% of the issued share capital of the Company, as at the Latest Practicable Date), will abstain from voting at the EGM; and
- (iii) for the resolution in relation to the PRC Continuing Connected Transactions with Fast Transmission, Mr. Yan Jianbo, an executive Director (who held 522,404 A Shares, representing approximately 0.01% of the issued share capital of the Company, as at the Latest Practicable Date), will abstain from voting at the EGM.

It is a requirement of the Listing Rules that the voting at the EGM must be taken by poll.

If you intend to attend the EGM, please complete and return the reply slip of the Company published on 17 July 2018 in accordance with the instructions printed thereon as soon as possible and in any event by no later than Saturday, 25 August 2018.

LETTER FROM THE BOARD

The proxy form for use at the EGM is published on 17 July 2018. Holders of A Shares may use the forms of proxy published by the Company on the website of the Shenzhen Stock Exchange instead. Whether or not you intend to be present at such meetings, you are requested to complete the forms of proxy in accordance with the instructions printed thereon and return the same to Computershare Hong Kong Investor Services Limited at 17M Floor, Hopewell Centre, 183 Queen's Road East, Wan Chai, Hong Kong (with respect to the holders of H Shares) or the Company's registered office at Capital Operation Department, 197, Section A, Fu Shou East Street, High Technology Industrial Development Zone, Weifang, Shandong Province, the PRC (postal code: 261061) (with respect to the holders of A Shares), no later than 24 hours before the time fixed for holding the EGM or any adjournment thereof. Completion and delivery of the form of proxy will not prevent you from attending and voting at the relevant meeting or any adjournment thereof if you so wish.

VII. RECOMMENDATIONS

Having considered the reasons set out herein, the Directors, including the independent non-executive Directors (having considered the advice of the Independent Financial Adviser in respect of the Continuing Connected Transactions), are of the opinion that the relevant New Caps and the terms of the Supplemental Agreements in respect of the Continuing Connected Transactions are fair and reasonable, in the ordinary and usual course of business of the Group, on normal commercial terms (or better to the Group), and in the interests of the Shareholders as a whole. Accordingly, the Directors recommend the Independent Shareholders to vote in favour of the resolutions regarding the same.

The Independent Board Committee comprising the independent non-executive Directors (namely, Mr. Zhang Zhong, Mr. Wang Gongyong, Mr. Ning Xiangdong, Mr. Li Hongwu and Mr. Wen Daocai) has been appointed to consider the Continuing Connected Transactions and the respective New Caps. The Independent Financial Adviser has been appointed to advise the Independent Board Committee and the Independent Shareholders on the fairness and reasonableness of the Supplemental Agreements in respect of the Continuing Connected Transactions and the respective New Caps. Your attention is drawn to (i) the letter setting out the advice from the Independent Board Committee to the Independent Shareholders, and (ii) the letter of advice from the Independent Financial Adviser setting out its advice to the Independent Board Committee and the Independent Shareholders in relation to the relevant New Caps and the Supplemental Agreements in respect of the Continuing Connected Transactions, which are set out in this circular.

The Directors also recommend the Shareholders to vote in favour of the resolutions in respect of the Specific Approval and the PRC Continuing Connected Transactions.

LETTER FROM THE BOARD

VIII. FURTHER INFORMATION

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

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

**LETTER FROM THE INDEPENDENT BOARD COMMITTEE
ON THE CONTINUING CONNECTED TRANSACTIONS**



WEICHAI

潍柴动力股份有限公司

WEICHAI POWER CO., LTD.

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

(Stock Code: 2338)

17 August 2018

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

Dear Sir or Madam,

CONTINUING CONNECTED TRANSACTIONS

We have been appointed as members of the Independent Board Committee to advise the Independent Shareholders of Weichai Power Co., Ltd. to consider the Supplemental Agreements and the relevant New Caps (as defined in the circular of the Company dated 17 August 2018) (the “**Circular**”) in relation to the Continuing Connected Transactions, details of which are set out in the section headed “II. The Continuing Connected Transactions” in the “Letter from the Board” contained in the Circular. Unless the context otherwise requires, terms defined in the Circular shall have the same meanings when used in this letter.

Your attention is drawn to the “Letter from the Board”, the advice of the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders in respect of the Continuing Connected Transactions as set out in the “Letter from the Independent Financial Adviser on the Continuing Connected Transactions” as well as other additional information set out in other parts of the Circular.

Having taken into account the advice of, and the principal factors and reasons considered by the Independent Financial Adviser in relation thereto as stated in its letter, we consider that the terms of the Continuing Connected Transactions and the relevant New Caps are fair and reasonable and the Continuing Connected Transactions are conducted in the ordinary and usual course of the Company’s business and are on normal commercial terms, and in the interest of the Company and its shareholders as a whole. We therefore recommend that you vote in favour of the ordinary resolutions to be proposed at the EGM to approve the Supplemental Agreements and the relevant New Caps for the Continuing Connected Transactions.

Zhang Zhong
*Independent
non-executive Director*

Yours faithfully,
The Independent Board Committee

Wang Gongyong
*Independent
non-executive Director*

Ning Xiangdong
*Independent
non-executive Director*

Li Hongwu
*Independent
non-executive Director*

Wen Daocai
*Independent
non-executive Director*

**LETTER FROM THE INDEPENDENT FINANCIAL ADVISER
ON THE CONTINUING CONNECTED TRANSACTIONS**

TRINITY

Trinity Corporate Finance Limited
Suite 7B, 7th Floor,
Two Chinachem Plaza,
68 Connaught Road Central,
Hong Kong.

17 August 2018

*To the Independent Board Committee and the Independent Shareholders of
Weichai Power Co., Ltd.*

Dear Sirs,

CONTINUING CONNECTED TRANSACTIONS

INTRODUCTION

We refer to our appointment to advise the Independent Board Committee and the Independent Shareholders in respect of the Continuing Connected Transactions, details of which are set out in the Letter from the Board (the “**Letter from the Board**”) in the Company’s circular dated 17 August 2018 (the “**Circular**”), of which this letter forms part. Terms used in this letter shall have the same meanings as those defined in the Circular unless the context otherwise requires.

On 13 July 2018, the Group has entered into the Supplemental Agreements in respect of the Continuing Connected Transactions. For these Continuing Connected Transactions, the Company proposes to apply for New Caps. For such purposes, the Group entered into the Supplemental Agreements.

As the highest percentage ratio calculated in accordance with the Listing Rules for the Continuing Connected Transactions as set out in section II of the Letter from the Board exceeds the 5% Threshold on an aggregated basis, such Continuing Connected Transactions constitute Non-exempt Continuing Connected Transactions of the Company and their respective Supplemental Agreement and proposed New Caps will be subject to the reporting and announcement requirements, the annual review requirements, and the Independent Shareholders’ approval requirements under Chapter 14A of the Listing Rules.

An Independent Board Committee comprising the independent non-executive Directors (namely, Mr. Zhang Zhong, Mr. Wang Gongyong, Mr. Ning Xiangdong, Mr. Li Hongwu and Mr. Wen Daocai) has been appointed to consider the Continuing Connected Transactions and the respective New Caps. Trinity Corporate Finance Limited has been appointed as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders in this respect.

As at the Latest Practicable Date, Trinity Corporate Finance Limited did not have any relationships or interests with the Company or any other parties that could reasonably be regarded as relevant to the independence of Trinity Corporate Finance Limited. In the last two

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years, Trinity Corporate Finance Limited has acted as an independent financial adviser to the then independent board committee and independent shareholders of the Company in relation to the continuing connected transactions between the Group and Weichai Westport (details of which were set out in the circular of the Company dated 11 August 2017) and major and continuing connected transactions between the Company and Shandong Finance (details of which were set out in the circular of the Company dated 21 April 2016). Apart from normal professional fees paid or payable to us in connection with such appointment, no arrangements exist whereby we had received or will receive any fees or benefits from the Company or any other party to the transactions, therefore we consider such relationship would not affect our independence.

BASIS OF OUR OPINION

In formulating our opinion to the Independent Board Committee and the Independent Shareholders, we have relied on the accuracy of the statements, information, opinions and representations contained or referred to in the Circular and the information and representations provided to us by the Company, the Directors and the management of the Company. We have no reason to believe that any information and representations relied on by us in forming our opinion is untrue, inaccurate or misleading, nor are we aware of any material facts the omission of which would render the information provided and the representations made to us untrue, inaccurate or misleading. We have assumed that all information, representations and opinions contained or referred to in the Circular, which have been provided by the Company, the Directors and the management of the Company and for which they are solely and wholly responsible, were true and accurate at the time when they were made and continue to be true as at the Latest Practicable Date and should there be any material changes to our opinion after the despatch of the Circular and up to the date of the EGM, Shareholders would be notified as soon as practicable.

All Directors jointly and severally accept full responsibility for the accuracy of the information contained in the Circular and confirm, having made all reasonable enquiries, that to the best of their knowledge, opinions expressed in the Circular have been arrived at after due and careful consideration and there are no other facts not contained in the Circular, the omission of which would make any statement in the Circular misleading.

We consider that we have been provided with, and we have reviewed sufficient information to reach an informed view, to justify relying on the accuracy of the information contained in the Circular and to provide a reasonable basis for our opinion. We have no reason to doubt that any relevant material facts have been withheld or omitted from the information provided and referred to in the Circular or the reasonableness of the opinions and representations provided to us by the Company. We have not, however, conducted any independent verification of the information provided, nor have we carried out any independent investigation into the business, financial conditions and affairs of the Group or any parties involved in the Continuing Connected Transactions or their future prospects.

Based on the foregoing, we confirm that we have taken all reasonable steps, which are applicable to the Continuing Connected Transactions, as referred to in Rule 13.80 of the Listing Rules (including the notes thereof) in formulating our opinion and recommendation.

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This letter is issued to the Independent Board Committee and the Independent Shareholders solely in connection with their consideration of the Continuing Connected Transactions and, except for its inclusion in the Circular, is not to be quoted or referred to, in whole or in part, nor shall this letter be used for any other purposes other than our role as the Independent Financial Adviser, without our prior written consent.

PRINCIPAL FACTORS AND REASONS CONSIDERED

In formulating our opinion regarding the Continuing Connected Transactions, we have taken into account the following principal factors and reasons:

A. Background of the Company

The Company is principally engaged in the research and development, manufacture and sale of high-speed heavy-duty diesel engines and engine parts. Chongqing Branch is the Company's facility (being its branch office) in Chongqing Municipality.

B. Financial Performance of the Company

The following table is a summary of the consolidated financial information of the Group for the three years ended 31 December 2015, 2016 and 2017 as extracted from the annual reports of the Company for the respective years.

	For the year ended 31 December 2015 (audited) RMB million	For the year ended 31 December 2016 (audited) RMB million	For the year ended 31 December 2017 (audited) RMB million
Revenue	74,168	93,184	151,569
Profit before tax	3,126	4,638	10,522
Profit for the year	2,198	3,596	9,178
Net profit attributable to the shareholders of the parent	1,412	2,441	6,808

The Group's revenue increased by approximately 25.6% and 62.7% as compared with that of the previous year during the year ended 31 December 2016 and 2017 respectively. The revenue growth of the Group for the year ended 31 December 2017 was primarily attributable to the substantial growth of the heavy-duty truck market in China, the continual expansion of the Group's market share resulting from ongoing product innovation, and the consolidation of the full-year results of Dematic.

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During the year ended 31 December 2017, with substantial growth in sales volume, the heavy-duty truck market exhibited an obvious trend of recovery, delivering sales of 1,117,000 units in total, representing a year-on-year increase of 52.4%. Such increase was driven by a multitude of favourable factors including the implementation of the new anti-overloading policies, the fostering of PPP (Public Private Partnership) projects, and the acceleration of fixed asset investments. Under such influence, during the year ended 31 December 2017, the Company reported sales of 370,000 units of heavy-duty truck engines, representing a year-on-year increase of 86.9%, and a market share of 33.1%, representing an increase of 6.1% from the corresponding period of last year, maintaining its leading position in the industry.

During the year ended 31 December 2017, under the influence of the state's macroeconomic policies, the passenger vehicles market of the PRC maintained its downward trend as in previous years, with accumulated sales of 527,000 units, representing a drop of 3% year-on-year. Among such, the market of large-sized passenger vehicles reported accumulated sales of 94,000 units, representing an increase of 4.1% year-on-year. The medium-sized passenger vehicle market suffered a serious drop in sales, with accumulated sales of 85,000 units which represented a year-on-year decrease of 14.6%. The light passenger vehicle market, which commanded larger market share, reported accumulated sales of 348,000 units, representing a decrease of 1.5% year-on-year. During the year ended 31 December 2017, with its efforts in adjusting product structure and strengthening marketing promotion, the Company's cumulative sales of engines for use in large-sized and medium-sized passenger vehicles amounted to 22,000 units, representing a year-on-year increase of 1.4%.

During the year ended 31 December 2017, the Company's net profit attributable to shareholders of the Company was approximately RMB6,808 million, representing a substantial increase of 178.9% compared with that in 2016.

C. The Company's Industry Prospects for 2018

According to the latest annual report, the Company is cautiously optimistic about the development trend of its related industries. In 2018, affected by the high base-figure and economic policy in 2017, it is expected that while the heavy-duty truck market will see some decrease in the pace of growth, it will continue running within a high range, which is mainly attributable to the following reasons. Firstly, with the continual growth in infrastructure investment, the newly-commenced infrastructure construction projects pursuant to the "One Belt and One Road" initiative and the increase in the volume of construction projects in free-trade zones, there will be a gradual revival in the market demand for construction vehicles. Secondly, the restrictions on the use of China III Emission Standards vehicles, the clean-up of the hazardous chemicals market, the tightened management over the measurement and overloading of trucks and the weighing of trucks in the licensing process will bring forth an accelerated replacement cycle, and hence resulting in a faster upgrade within the market and a more obvious trend for efficient logistics

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transportation to go high-end. Thirdly, with the emergence of e-commerce logistical planning, the development of logistics industry will become more efficient and standardized. The sales volume of high-speed, standardized vehicles models will gradually increase together with the rising demand for high-emission volume, high-powered vehicles.

D. Principal Terms of the Supplemental Agreements and Proposed New Caps of the Continuing Connected Transactions

As mentioned above, the Group entered into Supplemental Agreements in respect of the Continuing Connected Transactions on 13 July 2018.

By way of background, the companies within the Group which are involved in the Continuing Connected Transactions and their respective businesses are set out below:

- (i) The Company is principally engaged in the research and development, manufacture and sale of high-speed heavy-duty diesel engines and engine parts;
- (ii) Weichai After-sales Services is a wholly-owned subsidiary of the Company and is principally engaged in the sales of parts and components of diesel engines;
- (iii) Weichai Casting is a wholly-owned subsidiary of the Company and is principally engaged in the supply of casting products and related services;
- (iv) Weichai Reproduction is a wholly-owned subsidiary of the Company and is principally engaged in the reproduction of parts and components of vehicles;
- (v) Huadong Casting is an indirect wholly-owned subsidiary of the Company and is principally engaged in casting and sale of engine parts;
- (vi) Weichai Logistics is a wholly-owned subsidiary of the Company and is principally engaged in general transportation, storage, delivery and basic assembly of machine accessories and power;
- (vii) Weichai Yangzhou is indirectly held as to approximately 66.78% by the Company and is principally engaged in the design, development, manufacture, sale and maintenance of diesel engines; and
- (viii) Baudouin China is directly held as to approximately 50.98% and indirectly held as to approximately 49.02% by the Company and is principally engaged in the manufacture, sale, design, research and development of diesel engines and related products.

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The connected persons and their associates which are involved in the Continuing Connected Transactions and their respective businesses are set out below:

- (i) Weichai Holdings and Chongqing Weichai are principally engaged in the management, investment and the provision of general services;
- (ii) Weichai Import and Export is principally engaged in the import and export of certain products, including diesel engine parts and components and the provision of the relevant service;
- (iii) Yangzhou Shengda is principally engaged in the manufacturing and sale of automobiles, semi-trailers and modified vehicles;
- (iv) Dezhong Degong is principally engaged in the research and manufacture, production, sale, maintenance, lease of wheel-loaders, road building and maintenance machineries and components, and relevant technical consulting;
- (v) Weichai Heavy Machinery is principally engaged in the manufacture and sale of medium-speed diesel engines and diesel engine parts and components, power generators and related products, and construction machinery and the provision of repair processing services for machinery parts; and
- (vi) Weichai Electric Equipment is a wholly-owned subsidiary of Weichai Heavy Machinery and is principally engaged in the research and development, production, sale and repair of power generators, pump units, air compressor units, hydraulic pump units and their respective components and the import and export of permitted goods and technology.

Weichai Holdings is a substantial shareholder of the Company, and is accordingly a connected person of the Company. Chongqing Weichai and Weichai Import and Export and Yangzhou Shengda are wholly-owned subsidiaries of Weichai Holdings and are, accordingly, associates of Weichai Holdings and connected persons of the Company.

Dezhou Degong is a wholly-owned subsidiary of Shandong Heavy Industry, the holding company of Weichai Holdings. Hence, Dezhou Degong is an associate of Weichai Holdings and a connected person of the Company.

Weichai Heavy Machinery is an associate of Weichai Holdings (a substantial shareholder of the Company), and accordingly, Weichai Heavy Machinery and Weichai Electric Equipment are connected persons of the Company.

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1. *Sale of diesel engines, diesel engine parts and components, materials, semi-finished products, hydraulic products and related products and provision of processing services by the Company (and its subsidiaries) to Weichai Holdings (and its associates)*

The following summarises the principal terms of the Supplemental Agreement in respect of this Continuing Connected Transaction:

Agreement: Supplemental Agreement to the diesel engines, diesel engine parts and components, materials and related products sale and provision of processing services agreement between (i) the Company, Weichai After-sales Services and (ii) Weichai Holdings, Chongqing Casting, Weichai Import and Export and Chongqing Weichai ("**Weichai Sale and Processing Services Agreement**") dated 27 November 2008 (as supplemented by the supplemental agreements dated 23 August 2010, 29 August 2013, 30 August 2016 and 30 August 2017, respectively)

Date: 13 July 2018

Parties:

1. (a) The Company
(b) Weichai After-sales Services
(c) Weichai Casting
(d) Weichai Reproduction
(e) Weichai Logistics
2. (a) Weichai Holdings
(b) Weichai Import and Export
(c) Chongqing Weichai
(d) Yangzhou Shengda
(e) Dezhou Degong

Term: 1 January 2018 to 31 December 2020

Other terms and details:

Pursuant to the Weichai Sale and Processing Services Agreement (as supplemented by the above supplemental agreements but prior to the entering into of this Supplemental Agreement), the Company (and Chongqing Branch), Weichai After-sales Services, Weichai Casting, Weichai Reproduction, Weichai Logistics and/or other Group Company (as the case may be) has sold diesel engines, diesel engine parts and components, materials, semi-finished products and related products and to provide the processing services (as the case may be) to Weichai Holdings, Weichai Import

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and Export, Chongqing Weichai and/or other associates of Weichai Holdings (as the case may be) at market prices and settled on a monthly basis, for a term ending 31 December 2019, upon the expiry of which the parties shall have an option to renew the same for a period of three years on a mutually agreed basis.

Pursuant to this Supplemental Agreement, the Company (and Chongqing Branch), Weichai After-sales Services, Weichai Casting, Weichai Reproduction, Weichai Logistics and/or other Group Company (as the case may be) shall sell the said diesel engines, diesel engine parts and components, materials, semi-finished products, hydraulic products and related products and to provide the said processing services (as the case may be) to Weichai Holdings, Weichai Import and Export, Chongqing Weichai, Yangzhou Shengda, Dezhou Degong and/or other associates of Weichai Holdings (as the case may be) at market prices and settled on a monthly basis. The said Supplemental Agreement shall be effective for a term of three years ending 31 December 2020. Save as set out herein, all other terms of the Weichai Sale and Processing Services Agreement (as supplemented by the abovementioned supplemental agreements but prior to the entering into of this latest Supplemental Agreement) as set out above remain unchanged.

We are given to understand that the sale price of the said products and services is determined according to the following mechanism:

- (i) the marketing department of the Company regularly conducts market research and analysis regarding specific products, in which a number of factors, including the overall market prices, market shares, ordering situation and performance of major competitors of such products, are comprehensively considered;
- (ii) a price suggestion will be submitted by the marketing department of the Company after the above analysis to the Company's price management department;
- (iii) the final prices shall be determined at arm's length negotiation among the parties; and
- (iv) the price management department of the Company reviews the reasonableness of prices regularly and makes amendments when necessary.

We have discussed with the Company on the above pricing mechanism and have reviewed three samples of the market research and analysis conducted by the marketing department of the Company, which included information such as, analysis on the macroeconomic environment and fixed asset investments in the PRC, the sales amount of diesel engines and related products in the market and summary of update on recent PRC government

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policies in relation to the requirement of pollution control. We have also reviewed two samples of invoices related to this Continuing Connected Transaction and confirm that the invoiced amounts were billed in accordance with the price set by the price management department of the Company. We have not conducted any independent market research and we consider that it is reasonable to rely on the information provided by the Company given their products are specialised. We understand from the Company that in determining the price for this Continuing Connected Transaction, the Group will adopt the pricing mechanism as described above. On this basis, we consider the abovementioned procedures and considerations taken into account by the marketing department and price management department of the Company will ensure that this Continuing Connected Transaction is conducted on normal commercial terms, at fair and reasonable price and not prejudicial to the interests of the Company and the Independent Shareholders.

Proposed New Caps:

The table below summarises the Existing Caps for the three years ending 31 December 2019 for this Continuing Connected Transaction:

	Year ended 31 December 2017 RMB	Year ending 31 December 2018 RMB	Year ending 31 December 2019 RMB
Existing Cap	1,100,000,000	1,250,000,000	1,400,000,000

The table below summarises the actual transaction amounts involved, the percentage increase as compared to the preceding financial year and the respective utilization rates for each of the two years ended 31 December 2017 (audited) and the six months ended 30 June 2018 (unaudited) for this Continuing Connected Transaction:

	Year ended 31 December 2016 RMB	Year ended 31 December 2017 RMB	Six months ended 30 June 2018 (Note 1) RMB
Actual transaction amount	508,930,264	881,739,148	782,079,968
Percentage increase as compared to the preceding financial year	N/A	73.25%	77.39%
Utilization rate	N/A	80.16%	125.13%

Note:

- The percentage increase and utilization rate has been calculated on an annualized basis.

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The table below summarises the proposed New Caps for the three years ending 31 December 2020 for this Continuing Connected Transaction:

	Year ending 31 December 2018 RMB	Year ending 31 December 2019 RMB	Year ending 31 December 2020 RMB
New Cap	2,610,000,000	3,475,000,000	4,610,000,000

According to the Letter from the Board, the above proposed New Caps have been prepared by the Company primarily based on (i) the relevant historical costs, and (ii) the estimate of the number of diesel engines, diesel engine parts and components, materials, semi-finished products and hydraulic products and related products required by Weichai Holdings, Weichai Import and Export, Chongqing Weichai and Dezhou Degong (as the case may be) in view of the implementation of the Group’s “2020–2030 Strategy”, the average unit prices of the same, and the costs of the processing services to be provided. The Group’s “2020–2030 Strategy” outlines the development strategy of the Group which aims for the outperformance of the Group’s traditional businesses against global top standards by 2020 and the Group’s new energy business becoming a global industry leader by 2030. Pursuant to such strategy, the Group’s target is to generate a revenue of US\$100 billion for the year ending 31 December 2030. In order to achieve such goal, it is expected that the overall transaction amount of the relevant sale of products and services under the Weichai Sale and Processing Services Agreement will have to increase steadily at a year-to-year growth rate of not less than 30%. The Company estimates that approximately 48,000 diesel engines at the unit price ranging from RMB10,000 to RMB55,000 and approximately 25,000 units of major parts and components at the unit price ranging from RMB10,000 to RMB57,000 will be sold in 2018. Taking into account and on the basis of all the aforesaid factors, the Company estimates that the overall transaction amount of the said sale of products and services will grow by approximately 33.1% and 32.7% for each of the years ending 31 December 2019 and 31 December 2020, respectively.

Based on our discussion with the Company regarding the correlation between the Group’s “2020-2030 Strategy” and this Continuing Connected Transaction, the Company confirmed that the Group will increase its investment and trading in overseas market, in particular the “One Belt One Road” and European countries, and expand the manufacturing volume in the next three years in order to meet the Company’s target to achieve a business scale exceeding the world-class standard by 2020 for its traditional business and by 2030 for its new-energy business respectively under the Group’s “2020-2030 Strategy”. It is expected that the sales of the relevant subsidiaries of the Group involved in this Continuing Connected Transactions will grow by approximately 30% annually in the next three years.

We have also discussed with the Company relating to the significant increase of New Caps for the three years ending 31 December 2020 as compared with

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the Existing Caps for this Continuing Connected Transaction. We are advised by the Company that due to the favourable business environment in the industry and the strong demand for the Group's products, the transaction amount of the sale of the abovementioned products and processing services by the Group to Weichai Holdings (and its associates) has increased substantially for the first six months of 2018. The market research and analysis conducted by marketing department of the Company that we have reviewed is consistent with the fact that the sales amount of such diesel engines and related products in the market has grown substantially in the first quarter of 2018.

Further, we have discussed with the Company in respect of Dezhou Degong, a company principally engaged in the research and manufacture, production, sale, maintenance, lease of wheel-loaders, road building and maintenance machineries and components, and relevant technical consulting, which was recently acquired by Shandong Heavy Industry in June 2018 and became an associate of Weichai Holdings and a connected person of the Company thereafter. Prior to Dezhou Degong becoming a connected person of the Company, the transaction amount in respect of the sale of diesel engines, hydraulic parts and related products by the Group to Dezhou Degong for the two years ended 31 December 2017 and the five months ended 31 May 2018 amounted to approximately RMB35,862,400, RMB50,537,600 and RMB48,370,000 respectively. The Company anticipates that in order for Dezhou Degong to meet its production plans, there will be an increase in the number of diesel engines, hydraulic parts and related products required by Dezhou Degong from the Group. The estimated transaction amount for this Continuing Connected Transaction between Dezhou Degong and the Group is expected to be approximately RMB230 million, RMB305 million and RMB510 million for the six months ending 31 December 2018 and the two years ending 31 December 2019 and 2020 respectively.

After considering the increasing historical transaction amounts of this Continuing Connected Transaction, the Group's "2020-2030 Strategy", recent favourable market environment and the inclusion of the transactions between the Group and Dezhou Degong after the acquisition by Shandong Heavy Industry in June 2018, we are of the opinion that the proposed New Caps for this Continuing Connected Transaction are fair and reasonable.

As the highest percentage ratio calculated in accordance with the Listing Rules for this Continuing Connected Transaction for the three years ending 31 December 2020 (when aggregated with the proposed New Caps for the same period in respect of the Continuing Connected Transactions set out under sub sections II.2.(a) and II.2.(b) of the Letter from the Board) exceed the 5% Threshold, this Continuing Connected Transaction constitutes a Non-exempt Continuing Connected Transaction of the Company for the relevant period, and the proposed New Caps for the relevant period are subject to the reporting and announcement requirements, the annual review requirements, and the Independent Shareholders' approval requirements under Chapter 14A of the Listing Rules.

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Since this Continuing Connected Transaction (on an aggregated basis) is a Non-exempt Continuing Connected Transaction, this Supplemental Agreement and the proposed New Caps are subject to the relevant resolution being passed at the EGM.

2. *Sale of diesel engines and related products by the Company (and its subsidiaries) to Weichai Heavy Machinery (and its subsidiary)*

Agreement: Supplemental Agreement to the framework agreement between the Company and Weichai Holdings dated 17 November 2003 ("**Weichai Heavy Machinery Sale Agreement**") (as supplemented by the supplemental agreements dated 15 September 2004, 12 November 2006, 9 June 2007, 27 November 2008, 13 August 2009, 23 August 2010, 30 August 2012, 29 August 2013 and 27 August 2015, respectively)

Date: 13 July 2018

Parties:

1. (a) The Company
(b) Weichai Reproduction
(c) Weichai Yangzhou
(d) Baudouin China
2. (a) Weichai Heavy Machinery
(b) Weichai Electric Equipment

Term: 1 January 2019 to 31 December 2021

Other terms and details:

Pursuant to the Weichai Heavy Machinery Sale Agreement (as supplemented by the abovementioned supplemental agreements but prior to the entering into of this latest Supplemental Agreement), the Company, Weichai Reproduction, Weichai Yangzhou, Baudouin China (and/or other Group Company) (as the case may be) has sold certain diesel engines and related products to Weichai Heavy Machinery, Weichai Electric Equipment and/or other subsidiaries of Weichai Heavy Machinery (as the case may be) at market prices and settled on a monthly basis, for a term ending 31 December 2018, upon the expiry of which the parties may renew the term for another three years on a mutually agreed basis.

Pursuant to this latest Supplemental Agreement, the Company, Weichai Reproduction, Weichai Yangzhou and Baudouin China (and/or other Group Company) (as the case may be) shall sell to Weichai Heavy Machinery, Weichai Electric Equipment and/or other associates of Weichai Heavy Machinery (as the case may be) the said diesel engines and related products at market prices

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and settled on a monthly basis, for a term of three years ending 31 December 2021, upon the expiry of which the parties may renew the term for another three years on a mutually agreed basis. Save as set out herein, all other terms of the Weichai Heavy Machinery Sale Agreement (as supplemented by the aforesaid supplemental agreements but prior to the entering into of this latest Supplemental Agreement) shall remain unchanged.

We are given to understand that the price of the said products shall be determined according to the following mechanism:

- (i) the marketing department of the Company regularly conducts market research and analysis regarding specific products;
- (ii) the marketing department of the Company will formulate its pricing proposal after comprehensively considering the costs of such products and such proposal will be put before the price management department of the Company for approval;
- (iii) the final prices shall be determined at arm's length negotiation among the parties; and
- (iv) the price management department of the Company reviews the reasonableness of prices regularly and makes amendments when necessary.

We have discussed with the Company on the above pricing mechanism and have reviewed three samples of the market research and analysis conducted by the marketing department of the Company, which included information such as, analysis on the macroeconomic environment and fixed asset investments in the PRC, the sales amount of diesel engines and related products in the market and summary of update on recent PRC government policies in relation to the requirement of pollution control. We have also reviewed two samples of invoices related to this Continuing Connected Transaction and confirm that the invoiced amounts were billed in accordance with the price set by the price management department of the Company. We understand from the Company that in determining the price for this Continuing Connected Transaction, the Group will adopt the pricing mechanism as described above. On this basis, we consider the abovementioned procedures and considerations taken into account by the marketing department and price management department of the Company will ensure that this Continuing Connected Transaction is conducted on normal commercial terms, at fair and reasonable price and not prejudicial to the interests of the Company and the Independent Shareholders.

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Proposed New Caps:

The table below summarises the Existing Caps for the three years ending 31 December 2018 for this Continuing Connected Transaction:

	Year ended 31 December 2016 RMB	Year ended 31 December 2017 RMB	Year ending 31 December 2018 RMB
Existing Cap	450,000,000	600,000,000	800,000,000

The table below summarises the actual transaction amounts involved, the percentage increase as compared to the preceding financial year and the respective utilization rates for each of the two years ended 31 December 2017 (audited) and six months ended 30 June 2018 (unaudited) for this Continuing Connected Transaction:

	Year ended 31 December 2016 RMB	Year ended 31 December 2017 RMB	Six months ended 30 June 2018 (Note 1) RMB
Actual transaction amount	211,086,484	263,119,895	190,307,834
Percentage increase as compared to the preceding financial year	N/A	24.65%	44.65%
Utilization rate	46.91%	43.85%	47.58%

Note:

- The percentage increase and the utilization rate has been calculated on an annualized basis.

The table below summarises the proposed New Caps for the three years ending 31 December 2021 for this Continuing Connected Transaction:

	Year ending 31 December 2019 RMB	Year ending 31 December 2020 RMB	Year ending 31 December 2021 RMB
New Cap	570,000,000	650,000,000	750,000,000

The utilization rate of the Existing Caps remained relatively low during the term of the Weichai Heavy Machinery Sale Agreement, which the Board considers, was primarily due to the lower than expected sales of engines and

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engine parts used in boats and ships in view of the continuous sluggish shipping and ship-manufacturing markets and an increasingly competitive business environment on a global scale. Taking into account the relatively low utilization rate of approximately 47.58% of the Existing Caps for the six months ended 30 June 2018, the historical year-on-year increase of the actual transaction amount of this Continuing Connected Transaction, as well as the expected prospect as set out above, the Board proposed that New Cap for the year ending 31 December 2019 be adjusted downward to RMB570,000,000 from the Existing Cap of RMB800,000,000 for the year ending 31 December 2018.

We are also informed by the Company that, having considered the quality and competitiveness of the Group's diesel engines and the fact that the proximity between the Company's production facilities and those of Weichai Heavy Machinery, the Company believes that Weichai Heavy Machinery will continue to purchase the Group's diesel engines for the manufacture of power generators. In addition, increase in demand for the vessels sold by Weichai Heavy Machinery will also in turn lead to an increase in the sales of the vessel engines by the Group to Weichai Heavy Machinery. The Group has also sold certain diesel engines to Weichai Generator Equipment for its manufacture of generator sets.

In line with the current market conditions in respect of the said diesel engines, the Company estimates that the transaction amounts for this Continuing Connected Transaction for the three years ending 31 December 2021 will not exceed RMB570,000,000, RMB650,000,000 and RMB750,000,000, respectively. These estimates have also been made with reference to the expected salary growth rate and an expected increase in the sales of the said diesel engines by the Company to Weichai Heavy Machinery and Weichai Generator Equipment by approximately 14.0% and 15.4% for each of the years ending 31 December 2020 and 31 December 2021, respectively.

We have discussed the basis and assumptions of the above estimates with the management of the Company. Based on the market research and analysis of historical sales amount of the diesel engines conducted by the Company that we have reviewed, the sales of the diesel engines to transport ships and fishing boats in the PRC market is expected to grow by approximately 10% to 15% annually. On this basis and in view of the increasing historical transaction amounts for this Continuing Connected Transaction, we consider that the proposed New Caps for this Continuing Connected Transaction are fair and reasonable.

As the highest percentage ratio calculated in accordance with the Listing Rules for this Continuing Connected Transaction for the three years ending 31 December 2021 (when aggregated with the proposed New Caps for the same period in respect of the Continuing Connected Transactions set out under sub sections II.1. and II.2.(b) of the Letter from the Board) exceed the 5%

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Threshold, this Continuing Connected Transaction constitutes a Non-exempt Continuing Connected Transaction of the Company for the relevant period, and the proposed New Caps for the relevant period are subject to the reporting and announcement requirements, the annual review requirements, and the independent shareholders' approval requirements under Chapter 14A of the Listing Rules.

Since this Continuing Connected Transaction (on an aggregated basis) is a Non-exempt Continuing Connected Transaction, this Supplemental Agreement and the proposed New Caps are subject to the relevant resolution being passed at the EGM.

3. *Supply of semi-finished diesel engine parts, diesel engine parts and components, reserve parts and related products and provision of labour services by the Company (and its subsidiaries) to Weichai Heavy Machinery (and its subsidiaries)*

Agreement: Supplemental Agreement to the semi-finished diesel engine parts supply agreement ("**Weichai Heavy Machinery Supply Agreement**") dated 17 November 2003 between the Company and Weichai Holdings (as supplemented by supplemental agreements dated 15 September 2004, 12 November 2006, 9 June 2007, 9 November 2009, 29 August 2011, 29 August 2013 and 27 August 2015, respectively)

Date: 13 July 2018

Parties:

1.
 - (a) The Company
 - (b) Weichai Reproduction
 - (c) Weichai After-sales Services
 - (d) Weichai Casting
 - (e) Huadong Casting
 - (f) Weichai Logistics
2.
 - (a) Weichai Heavy Machinery
 - (b) Weichai Electric Equipment

Term: 1 January 2019 to 31 December 2021

Other terms and details:

Pursuant to the Weichai Heavy Machinery Supply Agreement (as supplemented by the aforesaid supplemental agreements but prior to the entering into of this latest Supplemental Agreement), each of the Company, Weichai Reproduction, Weichai After-sales Services, Weichai Casting, Huadong Casting and Weichai Logistics (and/or their subsidiaries) has sold

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certain semi-finished diesel engine parts, diesel engine parts and components, reserve parts and related products and provided the relevant labour services (as the case may be) to Weichai Heavy Machinery, Weichai Electric Equipment and/or other associates of Weichai Heavy Machinery (as the case may be) at market prices and settled on a monthly basis for a term ending 31 December 2018, upon the expiry of which the parties may renew the term for another three years on a mutually agreed basis.

Pursuant to this latest Supplemental Agreement, each of the Company, Weichai Reproduction, Weichai After-sales Services, Weichai Casting, Huadong Casting and Weichai Logistics (and/or other Group companies) has agreed to sell the said semi-finished diesel engine parts, diesel engine parts and components, reserve parts and related products and to provide the relevant labour services (as the case may be) to Weichai Heavy Machinery, Weichai Electric Equipment and/or other associates of Weichai Heavy Machinery (as the case may be) at market prices and settled on a monthly basis for a term of three years ending 31 December 2021, upon the expiry of which the parties may renew the term for another three years on a mutually agreed basis. Save as set out herein, all other terms of the Weichai Heavy Machinery Supply Agreement (as supplemented by the aforesaid supplemental agreements, but prior to the entering into of this latest Supplemental Agreement) remain unchanged.

We are given to understand that the price of the said products shall be determined according to the following mechanism:

- (i) the marketing department of the Company regularly conducts market research and analysis in which a number of factors, including the overall market prices, market shares, ordering situation and performance of major competitors of such products, are comprehensively considered;
- (ii) a price suggestion will be submitted by the marketing department of the Company after the above analysis to the Company's price management department;
- (iii) the final prices shall be determined at arm's length negotiation among the parties; and
- (iv) the price management department of the Company reviews the reasonableness of prices regularly and makes amendments when necessary.

We have discussed with the Company on the above pricing mechanism and have reviewed three samples of the market research and analysis conducted by the marketing department of the Company, which included information such as, analysis on the macroeconomic environment and fixed asset

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investments in the PRC, the sales amount of diesel engines and related products in the market and summary of update on recent PRC government policies in relation to the requirement of pollution control. We have also reviewed two samples of invoices related to this Continuing Connected Transaction and confirm that the invoiced amounts were billed in accordance with the price set by the price management department of the Company. We understand from the Company that in determining the price for this Continuing Connected Transaction, the Group will adopt the pricing mechanism as described above. On this basis, we consider the abovementioned procedures and considerations taken into account by the marketing department and price management department of the Company will ensure that this Continuing Connected Transaction is conducted on normal commercial terms, at fair and reasonable price and not prejudicial to the interests of the Company and the Independent Shareholders.

Proposed New Caps:

The table below summarises the Existing Caps for the three years ending 31 December 2018 for this Continuing Connected Transaction:

	Year ended 31 December 2016 RMB	Year ended 31 December 2017 RMB	Year ending 31 December 2018 RMB
Existing Cap	300,000,000	400,000,000	520,000,000

The table below summarises the actual transaction amounts involved, the percentage increase (decrease) as compared to the preceding financial year and the respective utilization rates for each of the two years ended 31 December 2017 (audited) and six months ended 30 June 2018 (unaudited) for this Continuing Connected Transaction:

	Year ended 31 December 2016 RMB	Year ended 31 December 2017 RMB	Six months ended 30 June 2018 (Note 1) RMB
Actual transaction amount	57,228,667	83,871,772	40,613,792
Percentage increase (decrease) as compared to the preceding financial year	N/A	46.56%	(3.15%)
Utilization rate	19.08%	20.97%	15.62%

Note:

- The percentage increase (decrease) and the utilization rate has been calculated on an annualized basis.

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The table below summarises the proposed New Caps for the three years ending 31 December 2021 for this Continuing Connected Transaction:

	Year ending 31 December 2019 RMB	Year ending 31 December 2020 RMB	Year ending 31 December 2021 RMB
New Cap	150,000,000	180,000,000	220,000,000

As illustrated above, the utilization rate of the Existing Caps remained low during the term of the Weichai Heavy Machinery Supply Agreement, which the Board considers, was primarily due to the lower than expected sales of engines and engine parts used in boats and ships in view of the continuous sluggish shipping and ship-manufacturing markets and an increasingly competitive business environment on a global scale. Taking into account the low utilization rate of approximately 15.62% of the Existing Caps for the six months ended 30 June 2018, the historical year-on-year increase of the actual transaction amount of this Continuing Connected Transaction, as well as the expected prospect as set out above, the Board proposed that New Cap for the year ending 31 December 2019 be adjusted downward to RMB150,000,000 from the Existing Cap of RMB520,000,000 for the year ending 31 December 2018.

We are also advised by the Company that the proposed New Caps have been prepared by the Company primarily based on (i) the historical costs, (ii) the estimate of the volume of the said semi-finished diesel engine parts, diesel engine parts and components, reserve parts and related products required by Weichai Heavy Machinery and its subsidiaries, (iii) the average unit prices of the said semi-finished diesel engine parts, diesel engine parts and components, reserve parts and related products, and (iv) the assumption that the transaction amount of the provision of the said products and labour services by the Group to Weichai Heavy Machinery and its subsidiaries will increase by approximately 20% and 22.2% for each of the years ending 31 December 2020 and 31 December 2021, respectively. The Company estimates that approximately 67,000 units of major semi-finished diesel engine parts and diesel engine parts and components at the unit price ranging from RMB400 to RMB6,000 will be sold in 2019.

We are informed by the Company that, having considered the quality and competitiveness of the Company's diesel engines and the fact that the proximity between the Company's production facilities and those of Weichai Heavy Machinery, the Company believes that Weichai Heavy Machinery and its subsidiaries will continue to purchase the Group's semi-finished diesel engine parts, diesel engine parts and components, reserve parts and related products for the manufacture of its products, including medium-speed diesel engines and power generators.

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We have discussed the basis and assumptions of the above estimates with the management of the Company. Based on the market research and analysis of historical sales amount of the diesel engines conducted by the Company that we have reviewed, the sales of the diesel engines to transport ships and fishing boats in the PRC market is expected to grow by approximately 10% to 15% annually. In view of the economic growth in the PRC in recent years and the strong demand for the products of Weichai Heavy Machinery and its subsidiaries, which shall in turn drive the demand for the Group's said products and labour services by Weichai Heavy Machinery and its subsidiaries, the Company expects that such strong demand will increase the purchase of the Group's semi-finished diesel engine parts, diesel engine parts and components, reserve parts and related products by Weichai Heavy Machinery and its subsidiaries by approximately 5% annually on top of the market growth as mentioned above. On this basis, we consider that the proposed New Caps for this Continuing Connected Transaction are fair and reasonable.

As the highest percentage ratio calculated in accordance with the Listing Rules for this Continuing Connected Transaction for the three years ending 31 December 2021 (when aggregated with the proposed New Caps for the same period in respect of the Continuing Connected Transactions set out under sub sections II.1. and II.2.(a) of the Letter from the Board) exceed the 5% Threshold, this Continuing Connected Transaction constitutes a Non-exempt Continuing Connected Transaction of the Company for the relevant period, and the proposed New Caps for the relevant period are subject to the reporting and announcement requirements, the annual review requirements, and the independent shareholders' approval requirements under Chapter 14A of the Listing Rules.

Since this Continuing Connected Transaction (on an aggregated basis) is a Non-exempt Continuing Connected Transaction, this Supplemental Agreement and the proposed New Caps are subject to the relevant resolution being passed at the EGM.

E. Reasons for and Benefits of the Continuing Connected Transactions

As stated in the Letter from the Board, the Company is principally engaged in the research and development, manufacture and sale of high-speed, heavy-duty diesel engines. Prior to the incorporation of the Company and the listing of the Shares on the Stock Exchange, the Company has had business relationships with certain entities. Under the Listing Rules, such entities have become connected persons of the Company since the listing of the Company and the transactions between the Company and such entities constitute continuing connected transactions of the Company. In respect of the Continuing Connected Transactions between the Company and Weichai Holdings, since their production facilities are located in close proximity to each other and in view of the PRC Government's policy not to duplicate construction of production and other facilities, such Continuing

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Connected Transactions have been continuing since the listing of the Company on the Stock Exchange. After the completion of the Weichai Holdings Juli Restructuring in 2007, the Continuing Connected Transactions with Weichai Holdings were transferred to Weichai Heavy Machinery.

As the Company has conducted these Continuing Connected Transactions with the relevant entities for many years and the Company has built up a long term strategic and solid business relationship with these entities, the Directors consider it is beneficial to the Company to continue to conduct these Continuing Connected Transactions in order to ensure and maximize operating efficiency and stability of the operations of the Company. The Directors are not aware of any disadvantage to the Group in continuing to conduct the Continuing Connected Transactions.

RECOMMENDATION

Having considered the principal factors and reasons referred to above, in particular:

- (1) the revenue growth of the Group in the last three years;
- (2) the Company's industry prospects for 2018;
- (3) the pricing mechanism for the Continuing Connected Transactions;
- (4) the samples of market research and analysis conducted by the marketing department of the Company reviewed by us;
- (5) the samples of invoices of the Continuing Connected Transactions reviewed by us;
- (6) the historical transaction amounts of the Continuing Connected Transactions;
- (7) the recent favourable market environment and strong demand of diesel engines and related products;
- (8) the Group's "2020-2030 Strategy";
- (9) the inclusion of the transactions between the Group and Dezhou Degong after the acquisition by Shandong Heavy Industry in June 2018;
- (10) the long term strategic and solid business relationship with the connected persons and their associates of the Continuing Connected Transactions; and
- (11) the fact that the Continuing Connected Transactions under the Supplemental Agreements will ensure and maximize operating efficiency and stability of the operations of the Group,

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We are of the opinion that the terms and the proposed New Caps of the Continuing Connected Transactions are on normal commercial terms or better and are fair and reasonable so far as the Independent Shareholders are concerned, and the Continuing Connected Transactions are in the ordinary and usual course of business of the Group, and the said terms are in the interests of the Company and the Independent Shareholders as a whole. Accordingly, we would advise the Independent Shareholders and the Independent Board Committee to recommend the Independent Shareholders to vote in favour of the resolution to approve the Continuing Connected Transactions at the EGM.

Yours faithfully,

For and on behalf of

Trinity Corporate Finance Limited

Keith Jacobsen
Responsible Officer

Joanne Pong
Responsible Officer

1. RESPONSIBILITY STATEMENT

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

2. DISCLOSURE OF INTERESTS

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

Interests in the Shares of the Company

Name of director	Capacity	Number of "A" shares held	Number of "H" shares held	Percentage of the issued share capital of the Company
Tan Xuguang	Beneficial owner	58,842,596 (Note 1)	–	0.74%
Zhang Quan	Beneficial owner	13,684,324 (Note 1)	–	0.17%
Xu Xinyu	Beneficial owner	13,684,324 (Note 1)	–	0.17%
Sun Shaojun	Beneficial owner	13,684,324 (Note 1)	–	0.17%
Yuan Hongming	Beneficial owner	500,440	–	0.0063%
	Interest held by spouse	444	–	0.000006%
Yan Jianbo	Beneficial owner	522,404	–	0.0065%

Name of supervisor	Capacity	Number of "A" shares held	Number of "H" shares held	Percentage of the issued share capital of the Company
Lu Wenwu	Beneficial owner	600,000	–	0.0075%
Wu Hongwei	Beneficial owner	4,789,516	–	0.06%

Notes:

- These shares were derived from the previous domestic shares of the Company. The domestic shares were ordinary shares issued by the Company, with a Renminbi denominated par value of RMB1.00 each, which were subscribed for and paid up in Renminbi or credited as fully paid up. These shares became A Shares of the Company upon the A Share listing of the Company on the Shenzhen Stock Exchange.
- All the shareholding interests listed in the above table are "long" position.

Interests in the shares of associated corporations of the Company

Name of Director	Name of associated corporation	Nature of interest	Class and number of securities interested or deemed to be interested	Approximate percentage interest in the entire issued share capital of associated corporations
Gordon Riske (Note)	KION Group AG ("KION")	Beneficial owner	114,060 ordinary shares	0.10%
		Interest held by spouse	93,940 ordinary shares	0.08%

Note: Gordon Riske, a non-executive Director, was the beneficial owner of 114,060 shares in KION and he was also deemed to be interested in 93,940 shares in KION which were beneficially held by his wife, Ms. Benita Riske.

Save as disclosed above, as at the Latest Practicable Date, none of the Directors, the chief executive nor the supervisors had an interest or short position in the shares, underlying shares or debentures of the Company or any of its associated corporations that was recorded in the register required to be kept pursuant to Section 352 of the SFO, or as otherwise notified to the Company pursuant to the Model Code for Securities Transaction by Directors of Listed Issuers.

The register of substantial Shareholders maintained by the Company pursuant to Section 336 of the SFO (including interests filed with the Stock Exchange) shows that as at the Latest Practicable Date, the following persons (other than the Directors, the chief executive and the supervisors) had the following interests and short positions (if any) in the shares and underlying shares of the Company:

Name	Capacity	Long/ Short position	Number of A shares	Percentage of share capital comprising only A shares	Number of H shares	Percentage of share capital comprising only H shares	Percentage of total issued share capital
Weichai Group Holdings Limited	Beneficial owner	Long	1,369,475,617	22.62%	-	-	17.12%
Shandong Heavy Industry Group Co., Ltd. (Note 1)	Held by controlled corporation	Long	1,369,475,617	22.62%	-	-	17.12%
Brandes Investment Partners, LP (Note 3)	Investment manager	Long	-	-	78,578,612	16.18%	3.93%
Lazard Asset Management LLC (Note 2)	Investment manager	Long	-	-	245,891,812	25.31%	6.15%
Lazard Emerging Markets Equity Portfolio (Note 4)	Investment manager	Long	-	-	23,707,500	5.86%	1.42%
Barclays PLC (Note 3)	Person having a security interest in shares	Long	-	-	525,552	0.11%	0.03%
	Interest of corporation controlled by the substantial shareholder	Long	-	-	25,453,050	5.24%	1.27%
					<u>25,978,602</u>	<u>5.35%</u>	<u>1.30%</u>
	Interest of corporation controlled by the substantial shareholder	Short	-	-	24,102,475	4.96%	1.21%

APPENDIX

GENERAL INFORMATION

Name	Capacity	Long/ Short position	Number of A shares	Percentage of share capital comprising only A shares	Number of H shares	Percentage of share capital comprising only H shares	Percentage of total issued share capital
Morgan Stanley (Note 2)	Interest of corporation controlled by the substantial shareholder	Long	-	-	49,335,508	5.08%	1.23%
	Interest of corporation controlled by the substantial shareholder	Short	-	-	42,078,545	4.33%	1.05%
BlackRock, Inc.	Interest of corporation controlled by you	Long	-	-	188,828,919	9.72%	2.36%
	Interest of corporation controlled by you	Short	-	-	179,000	0.01%	0.00%
Citigroup Inc.	Interest of corporation controlled by you	Long	-	-	16,269,510	0.84%	0.20%
	Approved lending agent	Long	-	-	104,227,763	5.36%	1.31%
					<u>120,497,273</u>	<u>6.20%</u>	<u>1.51%</u>
	Interest of corporation controlled by you	Short	-	-	15,434,898	0.79%	0.19%
JPMorgan Chase & Co.	Beneficial owner	Long	-	-	15,530,986	0.80%	0.19%
	Investment manager	Long	-	-	38,356,000	1.97%	0.48%
	Person having a security interest in shares	Long	-	-	2,457,006	0.13%	0.03%
	Trustee	Long	-	-	116,944	0.01%	0.00%
	Approved Lending agent	Long	-	-	45,281,602	2.33%	0.57%
					<u>101,742,538</u>	<u>5.24%</u>	<u>1.27%</u>
	Beneficial owner	Short	-	-	9,307,565	0.48%	0.12%

Name	Capacity	Long/ Short position	Number of A shares	Percentage of share capital comprising only	Number of H shares	Percentage of share capital comprising only	Percentage of total issued share capital
				A shares		H shares	
The Goldman Sachs Group, Inc.	Interest of corporation controlled by you	Long	-	-	97,823,803	5.03%	1.22%
	Interest of corporation controlled by you	Short	-	-	83,894,260	4.32%	1.05%

Notes:

1. Shandong Heavy Industry Group Co., Ltd., being a subsidiary of the State-owned Assets Supervision and Administration Commission of Shandong Province, held the entire share capital of Weichai Group Holding Limited (formerly known as Weifang Diesel Engine Works).
2. The number of H shares (and the relevant shareholding percentages) reported above by the relevant substantial shareholder does not take into consideration the Company's bonus share issuance on 21 July 2017 as there is no disclosure of interest obligation under the SFO where there is no change in percentage of shareholdings for a substantial shareholder.
3. The number of H shares (and the relevant shareholding percentages) reported above by the relevant substantial shareholder does not take into consideration the Company's bonus share issuance on 21 July 2017 and 20 August 2015 as there is no disclosure of interest obligation under the SFO where there is no change in percentage of shareholdings for a substantial shareholder.
4. The number of H shares (and the relevant shareholding percentages) reported above by the relevant substantial shareholder does not take into consideration the Company's bonus share issuance on 21 July 2017, 20 August 2015 and 17 August 2012 as there is no disclosure of interest obligation under the SFO where there is no change in percentage of shareholdings for a substantial shareholder.

Save as disclosed above, the Company had not been notified of any other relevant interests or short positions in the issued share capital of the Company as at the Latest Practicable Date.

As at the Latest Practicable Date, so far as is known to the Directors, the following Directors held offices in the substantial Shareholders set out above:

Name of Director	Positions held in Weichai Holdings	Positions held in Shandong Heavy Industry
Tan Xuguang	Chairman	Chairman
Jiang Kui	-	General manager
Xu Xinyu	Director	-
Sun Shaojun	Director	-
Zhang Quan	Director	-

3. ARRANGEMENTS AND MATTERS CONCERNING DIRECTORS

- (a) None of the Directors has entered into any service contract with the Group, which is not expiring or determinable by the Group within one year without payment of compensation (other than the payment of statutory compensation).
- (b) As at the Latest Practicable Date, save for Mr. Gordon Riske's interest in KION as disclosed in the section headed "2. Disclosure of interests – Interest in the shares of associated corporations of the Company" of this Appendix, none of the Directors was interested, directly or indirectly, in any assets which, since 31 December 2017, being the date to which the latest published audited consolidated financial statements of the Group were made up, had been acquired or disposed of by or leased to any member of the Group, or were proposed to be acquired or disposed of by or leased to any member of the Group. On 3 July 2018, the Company (through its indirect wholly-owned subsidiary, Weichai Power (Luxembourg) Holding S.à.r.l.), acquired 2,053,558 shares in KION for a consideration of approximately EUR150 million.
- (c) As at the Latest Practicable Date, none of the Directors was materially interested in any contract or arrangement subsisting at the Latest Practicable Date and entered into by the Group since 31 December 2017, being the date to which the latest published audited consolidated financial statements of the Group were made up, and which was significant in relation to the business of the Group.
- (d) As at the Latest Practicable Date, save for the directorship of Mr. Zhang Quan in 北汽福田汽車股份有限公司 (Beiqi Foton Motor Co., Ltd.) ("**Beiqi Foton**"), none of the Directors or their respective associates had any interest in a business which competed or might compete with the business of the Company. The Company has an approximately 1.2% interest in the shares of Beiqi Foton. Beiqi Foton is also a customer of the Company's diesel engines. Beiqi Foton is engaged in the production of, inter alia, heavy-duty vehicles/trucks.

4. MATERIAL ADVERSE CHANGE

The Directors are not aware of any material adverse change in the financial or trading position of the Group since 31 December 2017, the date to which the latest audited consolidated financial statements of the Group were made up.

5. EXPERT

- (a) The following is the qualification of the expert which has given opinion or advice which is contained in this circular:

Name	Qualification
Trinity Corporate Finance Limited	A corporation licensed to carry out regulated activity type 6 (advising on corporate finance) under the SFO

- (b) As at the Latest Practicable Date, the Independent Financial Adviser did not have any shareholding in the Company or any right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in any member of the Group, nor did it have any interest, direct or indirect, in any assets which had, since the date to which the latest published audited consolidated financial statements of the Group were made up, been acquired or disposed of by or leased to any member of the Group, or were proposed to be acquired or disposed of by or leased to any member of the Group.
- (c) The Independent Financial Adviser has given and has not withdrawn its written consent to the issue of this circular with the inclusion herein of its letter and references to its name in the forms and contexts in which they appear. The letter of the Independent Financial Adviser contained herein was issued on 17 August 2018 and was made by the Independent Financial Adviser for incorporation in this circular.

6. GENERAL

In the event of inconsistency, the English text of this circular shall prevail over the Chinese text.

7. DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents will be available for inspection during normal business hours on any weekday (except public holidays) at the principal place of business of the Company in Hong Kong at Rooms 3407–3408, 34th Floor, Gloucester Tower, Landmark, 15 Queen’s Road Central, Hong Kong, from 17 August 2018 to 31 August 2018 (both days inclusive):

- (a) the letter from the Independent Financial Adviser as set out in this circular;
- (b) the written consent from the Independent Financial Adviser referred to in paragraph 5 of this appendix;
- (c) the letter from the Independent Board Committee as set out in this circular; and
- (d) the Supplemental Agreements and the PRC Supplemental Agreements.