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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)

I. CONNECTED TRANSACTION

DISPOSAL OF 40% OF EQUITY INTEREST IN WEICHAI WESTPORT

II. CONTINUING CONNECTED TRANSACTIONS

THE DISPOSAL

The Board announces that on 25 December 2012, the Company (as vendor) and Weichai Holdings (as purchaser) entered into the Equity Transfer Agreement in respect of the Disposal of the Sale Equity (being 40% of equity interest in Weichai Westport). The Equity Transfer Agreement shall become effective upon satisfaction of the conditions set out in the section headed “I. Disposal – The Equity Transfer Agreement – Conditions” in this announcement. Completion of the Disposal shall occur when all necessary approvals, registrations and filings in respect of the Disposal have been completed.

Weichai Holdings is a substantial shareholder of the Company and, therefore, a connected person of the Company. The Disposal constitutes a connected transaction of the Company.

As all of the relevant percentage ratios calculated in accordance with the Hong Kong Listing Rules for the Disposal exceed the 0.1% Threshold but do not exceed the 5% Threshold, the Disposal as a connected transaction of the Company is only subject to the reporting and announcement requirements set out in Rules 14A.45 to 14A.47 of the Hong Kong Listing Rules, and is exempt from the independent shareholders' approval requirements of Chapter 14A of the Hong Kong Listing Rules.

THE CONTINUING CONNECTED TRANSACTIONS

Following the completion of the Disposal, Weichai Holdings (being a substantial shareholder of the Company) will hold 40% of equity interest in Weichai Westport, which will then become an associate of Weichai Holdings and a connected person of the Company. The Group has been conducting certain transactions with Weichai Westport, which will continue following the completion of the Disposal. Since these transactions with Weichai Westport will constitute Continuing Connected Transactions of the Group following the completion of the Disposal, the Group entered into the Framework Agreements on 25 December 2012 to govern the principal terms of the Continuing Connected Transactions from 25 December 2012 to 31 December 2014.

As all of the relevant percentage ratios calculated in accordance with the Hong Kong Listing Rules for the Continuing Connected Transactions for the year ending 31 December 2012 under the Framework Agreements (on an aggregated basis) exceed the 0.1% Threshold but do not exceed the 5% Threshold, they constitute Exempt Continuing Connected Transactions of the Company for the year ending 31 December 2012 and their respective New Caps for the relevant period will be subject to the reporting requirements set out in Rules 14A.45 and 14A.46 and the annual review requirements of Rules 14A.37 and 14A.38 of the Hong Kong Listing Rules.

As all of the relevant percentage ratios calculated in accordance with the Hong Kong Listing Rules for the Continuing Connected Transactions for the two years ending 31 December 2014 under the Framework Agreements (on an aggregated basis) exceed the 5% Threshold, they constitute Non-exempt Continuing Connected Transactions of the Company for the two years ending 31 December 2014 and their respective proposed New Caps for the relevant period will be subject to the reporting requirements set out in Rules 14A.45 and 14A.46 and the annual review requirements of Rules 14A.37 and 14A.38 of the Hong Kong Listing Rules, and the independent shareholders' approval requirements of Chapter 14A of the Hong Kong Listing Rules.

The Group also entered into certain PRC Continuing Connected Transactions with Weichai Westport. Pursuant to the requirements of the Shenzhen Listing Rules, the Continuing Connected Transactions have been aggregated with the PRC Continuing Connected Transactions, and such transactions (including the relevant agreements) are subject to the approval of the Independent Shareholders.

A circular containing, *inter alia*, (i) further details of the Continuing Connected Transactions for the two years ending 31 December 2014; (ii) a letter from the Independent Board Committee to the Independent Shareholders in relation to the Continuing Connected Transactions for the two years ending 31 December 2014; and (iii) a letter of advice from the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders in relation to the Continuing Connected Transactions for the two years ending 31 December 2014, will be dispatched to the Shareholders on or before 17 January 2013.

I. THE DISPOSAL

The Board announces that on 25 December 2012, the Company (as vendor) and Weichai Holdings (as purchaser) entered into the Equity Transfer Agreement in respect of the Disposal of the Sale Equity (being 40% of equity interest in Weichai Westport). The Equity Transfer Agreement shall become effective upon satisfaction of the conditions set out in the section headed “I. The Disposal – The Equity Transfer Agreement – Conditions” in this announcement.

The Equity Transfer Agreement

The Equity Transfer Agreement has been entered into and its principal terms are as follows:

Date: 25 December 2012

Parties: (1) Vendor: the Company, the principal business of which is the research and development, manufacture and sale of high speed heavy duty diesel engines and engine parts; and through its subsidiaries, the manufacture and sale of heavy-duty trucks and motor vehicle parts and accessories for heavy-duty trucks; and

(2) Purchaser: Weichai Holdings, the principal business of which is management, investment and the provision of general services.

Weichai Holdings is a substantial shareholder of the Company and is therefore also a connected person of the Company.

Conditions

The Equity Transfer Agreement shall be effective upon the satisfaction of the following conditions:

- (i) due execution of the Equity Transfer Agreement;
- (ii) the Board having approved the Disposal;
- (iii) the Asset Valuation Report having duly filed with the Shandong SASAC; and
- (iv) the original approving authority (原審批機關) of Weichai Westport having approved the Disposal.

As at the date of this announcement, the conditions set out under paragraphs (i) and (ii) above have been satisfied.

Completion

Completion of the Disposal shall occur when all necessary approvals, registrations and filings in respect of the Disposal have been completed.

Assets to be disposed of

The subject matter of the Disposal under the Equity Transfer Agreement is the Sale Equity (being 40% of equity interest in Weichai Westport). The Company will cease to have any equity interest in Weichai Westport following the completion of the Disposal.

Consideration

The Consideration will be 40% of the appraised value of Weichai Westport as at 30 November 2012 as set out in the Asset Valuation Report after it has been filed with the Shandong SASAC. According to the Asset Valuation Report submitted to the Shandong SASAC, the appraised value of Weichai Westport as at 30 November 2012 was approximately RMB235,169,700 and, accordingly, the Consideration is expected to be approximately RMB94,067,880.

The Consideration shall be payable by Weichai Holdings to the Company in cash in the following manner:

- (i) 50% of the Consideration shall be paid within 15 business days from the date of the Equity Transfer Agreement; and
- (ii) 50% of the Consideration shall be paid before 31 March 2013.

The Consideration was determined after arm's length negotiation between the parties and by reference to the appraised value of Weichai Westport as at 30 November 2012 as set out in the Asset Valuation Report.

Information on Weichai Westport

Weichai Westport is principally engaged in the business of research and development, manufacture and sale of gas engines and parts used in motor vehicles, power generation and marine vessels.

According to the Asset Valuation Report, the appraised value of Weichai Westport as at 30 November 2012 was approximately RMB235,169,700, representing an increase in value of approximately RMB87,725,171, or approximately 59.50% as compared to the audited net asset value of Weichai Westport as at 30 November 2012, prepared in accordance with PRC GAAP, of approximately RMB147,444,529. As such, the attributable appraised value of the Sale Equity as at 30 November 2012 was approximately RMB94,067,880 and the attributable audited net asset value of the Sale Equity as at 30 November 2012 was approximately RMB58,977,812.

As the Company holds only 40% of equity interest in Weichai Westport, Weichai Westport is not a subsidiary of the Company and its financial results were not consolidated in the financial statements of the Company.

Based on the audited financial statements of Weichai Westport, the net profit before and after tax of Weichai Westport for the financial year ended 31 December 2011, prepared in accordance with PRC GAAP, were approximately RMB39,523,681 and RMB33,386,813, respectively. Based on the audited financial statements of Weichai Westport, the net profit before and after tax of Weichai Westport for the financial year ended 31 December 2010, prepared in accordance with the PRC GAAP, were approximately RMB18,491,831 and RMB15,599,653, respectively.

Reasons and benefits for the Disposal

Based on the unaudited financial statements of the Company as at 30 November 2012, and taking into account the consideration and the carrying value of the Sale Equity in the said financial statements, it is estimated that the Disposal will result in a net gain of approximately RMB24,894,949 for the Company. The cash proceeds from the Disposal, being the amount of the Consideration, will be used for general working capital of the Group.

The Board considers that the Disposal will facilitate the Company's concentration on its core business. At the same time, the Disposal will facilitate the economic growth of Weichai Westport, which will in turn drive and support the sale of related products by the Company.

The Board (including the independent non-executive Directors), considers the terms of the Equity Transfer Agreement have been negotiated and arrived at on arm's length basis and that such terms are fair and reasonable and in the interests of the Shareholders as a whole. None of the Directors has any material interest in the Disposal.

At the meeting of the Board on 25 December 2012 approving, *inter alia*, the Disposal, Tan Xuguang, Jiang Kui, Xu Xinyu, Sun Shaojun, Zhang Quan and Liu Huisheng abstained from voting on the resolutions in respect of the Disposal for reason of their respective positions in Weichai Holdings, being the purchaser in the Disposal.

Listing Rules implications

Weichai Holdings is a substantial shareholder of the Company and, therefore, a connected person of the Company. The Disposal constitutes a connected transaction of the Company.

As all of the relevant percentage ratios calculated in accordance with the Hong Kong Listing Rules for the Disposal exceed the 0.1% Threshold but do not exceed the 5% Threshold, the Disposal as a connected transaction of the Company is only subject to the reporting and announcement requirements set out in Rules 14A.45 to 14A.47 of the Hong Kong Listing Rules, and is exempt from the independent shareholders' approval requirements of Chapter 14A of the Hong Kong Listing Rules.

II. THE CONTINUING CONNECTED TRANSACTIONS

Following the completion of the Disposal, Weichai Holdings (being a substantial shareholder of the Company) will hold the Sale Equity (being 40% of equity interest in Weichai Westport) which will then become an associate of Weichai Holdings and a connected person of the Company. The Group has been conducting certain transactions in the operation of its business with Weichai Westport, which will continue following the completion of the Disposal. Since certain transactions with Weichai Westport will constitute Continuing Connected Transactions of the Group following the completion of the Disposal, the Group entered into the Framework Agreements with Weichai Westport on 25 December 2012 to govern the principal terms of the Continuing Connected Transactions from 25 December 2012 to 31 December 2014.

The proposed New Caps for the Continuing Connected Transactions are based on the internal estimates of the Company, which are in turn determined by reference to, *inter alia*, the historical transaction amounts and operating conditions of the Group. The bases of the proposed New Caps are more particularly set out in this announcement.

Summary of the Continuing Connected Transactions and the proposed New Caps

The Continuing Connected Transactions will 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
Weichai Westport	The Company, Weichai Resources and Weichai Reproduction (as the case may be) (<i>note 1</i>)	Following the completion of the Disposal, Weichai Westport will be held as to 40% by Weichai Holdings, a substantial shareholder of the Company	<p>(a) Supply of basic engines, gas engine parts and related products by the Company (and its subsidiaries) to Weichai Westport</p> <p>(b) Purchase of gas engines, gas engine parts and related products by the Company (and its subsidiaries) from Weichai Westport</p>

Note:

1. Weichai Resources and Weichai Reproduction are wholly-owned subsidiaries of the Company.

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

Details of the relevant Continuing Connected Transaction with Weichai Westport

		Proposed New Caps		
		For the year ending 31 December 2012 RMB	For the year ending 31 December 2013 RMB	For the year ending 31 December 2014 RMB
(1)	Supply of basic engines, gas engine parts and related products by the Company (and its subsidiaries) to Weichai Westport	200,000,000*	2,100,000,000 [#]	2,800,000,000 [#]
(2)	Purchase of gas engines, gas engine parts and related products by the Company (and its subsidiaries) from Weichai Westport	400,000,000*	4,200,000,000 [#]	5,500,000,000 [#]

Note:

1. Where a New Cap is marked “*”, that means the proposed New Cap for the relevant Continuing Connected Transaction for the relevant period exceeds the 0.1% Threshold but does not exceed the 5% Threshold and is exempt from the approval by the Independent Shareholders under the Hong Kong Listing Rules.
2. Where a New Cap is marked “#”, that means the proposed New Cap for the relevant Continuing Connected Transaction for the relevant period exceeds the 5% Threshold and is subject to the approval by the Independent Shareholders under the Hong Kong Listing Rules.
3. For the purposes of ascertaining whether a Continuing Connected Transaction will exceed the 5% Threshold, the transactions under paragraphs (1) and (2) have been aggregated pursuant to the requirements of Chapter 14A of the Hong Kong Listing Rules, considering that a substantial portion of the products sold by the Group to Weichai Westport pursuant to the transaction under paragraph (1) are purchased by the Group pursuant to the transaction under paragraph (2) after certain modifications and assembly of the products by Weichai Westport. Pursuant to the requirements of the Shenzhen Listing Rules, the transactions under paragraphs (1) and (2) above have also been aggregated with the PRC Continuing Connected Transactions.

Details of the Continuing Connected Transactions and the relevant agreements

The Company is principally engaged in the research and development, manufacturing and sale of high-speed heavy-duty diesel engines and engine parts.

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

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

Weichai Westport is principally engaged in the business of research and development, manufacture and sale of gas engines and parts used in motor vehicles, power generation and marine vessels. Following the completion of the Disposal, Weichai Westport will be held as to 40% by Weichai Holdings, a substantial Shareholder of the Company. Accordingly, Weichai Westport will be a connected person of the Company following the completion of the Disposal.

1. *Supply of basic engines, gas engine parts and related products by the Company (and its subsidiaries) to Weichai Westport*

Agreement: A framework agreement in relation to the supply of basic engines, gas engine parts and related products by the Company (and its subsidiaries) to Weichai Westport (the “**Weichai Westport Supply Agreement**”)

Date: 25 December 2012

Parties: 1. (a) The Company
(b) Weichai Resources
(c) Weichai Reproduction
2. Weichai Westport

Term: 25 December 2012 to 31 December 2014

Other terms and details:

Pursuant to the Weichai Westport Supply Agreement, each of the Company, Weichai Resources and Weichai Reproduction has agreed to supply certain basic engines, gas engine parts and related products to Weichai Westport, at market prices and/or prices agreed according to the principle of fairness and reasonableness and settled on a monthly basis for a term from 25 December 2012 to 31 December 2014, upon the expiry of which the parties may extend the term for three years on a mutually agreed basis. This Continuing Connected Transaction will be subject to normal commercial terms and terms no less favourable to the Company than those available to the Company from independent third parties.

The table below summarises the actual transaction amounts involved for each of the two years ended 31 December 2011 (audited) and the 11 months ended 30 November 2012 (unaudited) for the supply of basic engines, gas engine parts and related products by the Company (and its subsidiaries) to Weichai Westport:

	Year ended 31 December 2010 RMB	Year ended 31 December 2011 RMB	11 months ended 30 November 2012 RMB
Actual transaction amount	110,741,103	292,184,971	709,353,496

The Company estimates that the transaction amount of this Continuing Connected Transaction for the three years ending 31 December 2014 shall not exceed RMB200,000,000, RMB2,100,000,000 and RMB2,800,000,000 respectively, and the same have been accordingly set as the proposed New Caps for this Continuing Connected Transaction.

The said basic engines, gas engine parts and related products sold by the Group to Weichai Westport are modified and assembled by Weichai Westport into gas engines, which are in turn sold by Weichai Westport back to the Group for onward sale to its customers. In the 11 months of November 2012, the orders for the Group's heavy-duty vehicles (with gas engines installed) and gas engines have increased substantially. Accordingly, the Company expects the transaction amount of the said basic engines, gas engine parts and related products sold by the Group to Weichai Westport for modification and assembly into gas engines for the full year of 2012 to be approximately RMB1,000,000,000, representing approximately a 242% increase from that for the year of 2011. According to the sales projection of the Group's heavy-duty vehicles (with gas engines installed) and gas engines, the Company expects that the transaction amount of the said basic engines, gas engine parts and related products sold by the Group to Weichai Westport for modification and assembly into gas engines shall increase substantially for the year ending 31 December 2013, in line with the new sales model of the Group resulting in an increase in the volume of gas engines, gas engine parts and related products to be sold by the Group to third party customers after purchasing the same from Weichai Westport, and the national policies of the PRC and the Group's development plans which are expected to be favourable to the market of the Group's gas engines. It is also expected that the said transaction amount will maintain a steady growth for the year ending 31 December 2014.

The proposed New Caps have been prepared by the Company primarily based on (i) the historical transaction amounts, (ii) the estimate of the volume of basic engines, gas engine parts and related products required by Weichai Westport, (iii) the average unit prices of such basic engines, gas engine parts and related products, (iv) the expected transaction amount for the period from 25 December 2012 to 31 December 2012 and the two years ending 31 December 2014 and (v) the assumption that the overall sales of the Group's basic engines, gas engine parts and related products to Weichai Westport on an annual basis will increase approximately 110% and 33% for each of the two years ending 31 December 2014 respectively.

The table below summarises the proposed New Caps for the Continuing Connected Transaction as set out in this sub-section for the three years ending 31 December 2014:

	For the year ending 31 December 2012*	For the year ending 31 December 2013	For the year ending 31 December 2014
	RMB	RMB	RMB
New Cap	200,000,000	2,100,000,000	2,800,000,000

Note:

* This covers the period from 25 December 2012 to 31 December 2012.

As the proposed New Cap for this Continuing Connected Transaction for the year ending 31 December 2012 (when aggregated with the proposed New Cap for the same period under sub-section 2) exceeds the 0.1% Threshold but does not exceed the 5% Threshold, it constitutes an Exempt Continuing Connected Transaction of the Company for the relevant period, and the New Cap for the relevant period will be subject to the reporting requirements set out in Rules 14A.45 and 14A.46 and the annual review requirements of Rules 14A.37 and 14A.38 of the Hong Kong Listing Rules.

As the proposed New Caps for this Continuing Connected Transaction for the two years ending 31 December 2014 (when aggregated with the proposed New Caps for the same period under sub-section 2) exceed the 5% Threshold, it 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 set out in Rules 14A.45, 14A.46 and 14A.47 of the Hong Kong Listing Rules and the annual review requirements of Rules 14A.37 and 14A.38 of the Hong Kong Listing Rules, and the independent shareholders' approval requirements of Chapter 14A of the Hong Kong Listing Rules.

Since this Continuing Connected Transaction for the two years ending 31 December 2014 (on an aggregated basis) is a Non-exempt Continuing Connected Transaction and the proposed New Caps for the relevant period are subject to the approval of the Independent Shareholders, the Weichai Westport Supply Agreement (in respect of the proposed New Caps for the relevant period) is conditional upon the said resolution being passed at the EGM.

Pursuant to the requirements of the Shenzhen Listing Rules, the Continuing Connected Transactions have also been aggregated with the PRC Continuing Connected Transactions, and such transactions (including the relevant agreements) are subject to the approval of the Independent Shareholders.

2. *Purchase of gas engines, gas engine parts and related products by the Company (and its subsidiaries) from Weichai Westport*

Agreement: A framework agreement in relation to the purchase of gas engines, gas engine parts and related products by the Company (and its subsidiaries) from Weichai Westport (“**Weichai Westport Purchase Agreement**”)

Date: 25 December 2012

Parties: 1. (a) The Company
(b) Weichai Reproduction
(c) Weichai Resources
2. Weichai Westport

Term: 25 December 2012 to 31 December 2014

Other terms and details:

Pursuant to the Weichai Westport Purchase Agreement, each of the Company, Weichai Reproduction and Weichai Resources has agreed to purchase certain gas engines, gas engine parts and related products from Weichai Westport, at market prices and/or prices agreed according to the principle of fairness and reasonableness and settled on a monthly basis, for a term from 25 December 2012 to 31 December 2014, upon the expiry of which the parties may extend the term for three years on a mutually agreed basis. This Continuing Connected Transaction shall be subject to normal commercial terms and terms no less favourable to the Company than those available to the Company from independent third parties.

The table below summarises the actual transaction amounts involved for each of the two years ended 31 December 2011 (audited) and the 11 months ended 30 November 2012 (unaudited) for the purchase of gas engines, gas engine parts and related products by the Company (and its subsidiaries) from Weichai Westport:

	Year ended 31 December 2010 RMB	Year ended 31 December 2011 RMB	11 months ended 30 November 2012 RMB
Actual transaction amount	276,092,997	629,513,519	1,464,940,343

The Company estimates that the transaction amount of this Continuing Connected Transaction for the three years ending 31 December 2014 shall not exceed RMB400,000,000, RMB4,200,000,000 and RMB5,500,000,000 respectively, and the same have been accordingly set as the proposed New Caps for this Continuing Connected Transaction.

In the 11 months ended 30 November 2012, the orders for the Group's heavy-duty vehicles (with gas engines installed) and gas engines have increased substantially. Accordingly, the Company expects the transaction amount of the gas engines, gas engine parts and related products purchased by the Group from Weichai Westport for onward sale to its customers for the full year of 2012 to be approximately RMB2,000,000,000, representing approximately a 218% increase from that for the year of 2011. According to the sales projection of the Group's heavy-duty vehicles (with gas engines installed) and gas engines, the Company expects that the transaction amount of the said gas engines, gas engine parts and related products purchased by the Group from Weichai Westport to increase substantially for the year ending 31 December 2013, in line with the new sales model of the Group resulting in an increase in the volume of gas engines, gas engine parts and related products to be sold by the Group to third party customers after purchasing the same from Weichai Westport, and the national policies of the PRC and the Group's development plans which are expected to be favourable to the market of the Group's gas engines. It is expected that the said transaction amount will maintain a steady growth for the year ending 31 December 2014.

The proposed New Caps have been prepared by the Company primarily based on (i) the historical transaction amounts, (ii) the estimate of the volume of gas engines, gas engine parts and related products to be purchased by the Group from Weichai Westport, (iii) the average unit prices of such gas engines, gas engine parts and related products, (iv) the expected transaction amount for the period from 25 December 2012 to 31 December 2012 and the two years ending 31 December 2014; and (v) the assumption that the overall purchase of gas engines, gas engine parts and related products by the Group from Weichai Westport on an annual basis will increase approximately 110% and 31% for each of the two years ending 31 December 2014 respectively.

The table below summarises the proposed New Caps for the Continuing Connected Transaction as set out in this sub-section for the three years ending 31 December 2014:

	For the year ending 31 December 2012* RMB	For the year ending 31 December 2013 RMB	For the year ending 31 December 2014 RMB
New Cap	400,000,000	4,200,000,000	5,500,000,000

Note:

* This covers the period from 25 December 2012 to 31 December 2012.

As the proposed New Cap for this Continuing Connected Transaction for the year ending 31 December 2012 (when aggregated with the proposed New Cap for the same period under sub-section 1) exceeds the 0.1% Threshold but does not exceed the 5% Threshold, it constitutes an Exempt Continuing Connected Transaction of the Company for the relevant period and the New Cap for the relevant period will be subject to the reporting and announcement requirements set out in Rules 14A.45, 14A.46 and 14A.47 of the Hong Kong Listing Rules and the annual review requirements of Rules 14A.37 and 14A.38 of the Hong Kong Listing Rules.

As the proposed New Caps for this Continuing Connected Transaction for the two years ending 31 December 2014 (when aggregated with the proposed New Caps for the same period under sub-section 1) exceed the 5% Threshold, it 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 set out in Rules 14A.45, 14A.46 and 14A.47 of the Hong Kong Listing Rules and the annual review requirements of Rules 14A.37 and 14A.38 of the Hong Kong Listing Rules, and the independent shareholders' approval requirements of Chapter 14A of the Hong Kong Listing Rules.

Since this Continuing Connected Transaction for the two years ending 31 December 2014 (on an aggregated basis) is a Non-exempt Continuing Connected Transaction and the proposed New Caps are subject to the approval of the Independent Shareholders, the Weichai Westport Purchase Agreement (in respect of the proposed New Caps for the relevant period) is conditional upon the said resolution being passed at the EGM.

Pursuant to the requirements of the Shenzhen Listing Rules, the Continuing Connected Transactions have also been aggregated with the PRC Continuing Connected Transactions, and such transactions (including the relevant agreements) are subject to the approval of the Independent Shareholders.

Reasons and benefits for the Continuing Connected Transactions

The Board is of the view that (i) the sale of basic engines, gas engine parts and related products to Weichai Westport; and (ii) the purchase of gas engines, gas engine parts and related products manufactured by Weichai Westport by modifying and assembling the basic engines, gas engine parts and related products it purchased from the Group, and the onward sale of the gas engines, gas engine parts and related products by the Group to its customers will allow the Group to maintain a strong strategic and business relationships with Weichai Westport, thereby generating synergy potential and mutual economic benefits between the Group and Weichai Westport. The Board considers that the Continuing Connected Transactions under the Framework Agreements will also provide a secure source of revenue for the Group, and the Group will also be able to secure a stable and reliable supply of quality gas engines from Weichai Westport instead of sourcing from other market suppliers.

The Board has confirmed that the Continuing Connected Transactions have been subject to arm's length negotiations between the Group and Weichai Westport, 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 (for the Continuing Connected Transactions for the 2 years ending 31 December 2014, excluding the independent non-executive Directors whose view is subject to the advice of the Independent Financial Adviser) are of the view that the Continuing Connected Transactions, and the relevant proposed New Caps, are fair and reasonable and in the interests of the Shareholders as a whole.

None of the Directors has any material interest in the Continuing Connected Transactions. No Director has abstained from voting on the board resolutions approving the Continuing Connected Transactions on 25 December 2012.

Listing Rules implications

As all of the relevant percentage ratios calculated in accordance with the Hong Kong Listing Rules for the Continuing Connected Transactions for the year ending 31 December 2012 under the Framework Agreements (on an aggregated basis) exceed the 0.1% Threshold but do not exceed the 5% Threshold, they constitute Exempt Continuing Connected Transactions of the Company for the year ending 31 December 2012 and their respective New Caps for the relevant period will be subject to the reporting requirements set out in Rules 14A.45 and 14A.46 and the annual review requirements of Rules 14A.37 and 14A.38 of the Hong Kong Listing Rules.

As all of the relevant percentage ratios calculated in accordance with the Hong Kong Listing Rules for the Continuing Connected Transactions for the two years ending 31 December 2014 under the Framework Agreements (on an aggregated basis) exceed the 5% Threshold, they constitute Non-exempt Continuing Connected Transactions of the Company for the two years ending 31 December 2014 and their respective proposed New Caps for the relevant period will be subject to the reporting requirements set out in Rules 14A.45 and 14A.46 and the annual review requirements of Rules 14A.37 and 14A.38 of the Hong Kong Listing Rules, and the independent shareholders' approval requirements of Chapter 14A of the Hong Kong Listing Rules.

III. THE PRC CONTINUING CONNECTED TRANSACTIONS

In addition to the Continuing Connected Transactions, certain transactions which have been conducted between the Group and Weichai Westport in the ordinary course of business will continue following the completion of the Disposal as set out under this section (the "**PRC Continuing Connected Transactions**"). The proposed new caps for each of such transactions for the term from 25 December 2012 to 31 December 2014 do not exceed the 0.1% Threshold, and, accordingly, are not subject to the reporting, announcement and independent shareholders' approval requirements of the Hong Kong Listing Rules. Further, each of such PRC Continuing Connected Transactions is of a different nature from and is carried out independently of the Continuing Connected Transactions. However, pursuant to the requirements of the Shenzhen Listing Rules, the PRC Continuing Connected Transactions have been aggregated with the Continuing Connected Transactions, and such transactions (including the relevant agreements) are subject to the approval of the Independent Shareholders.

Summary of the PRC Continuing Connected Transactions and the proposed new caps

The PRC Continuing Connected Transactions will 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
Weichai Westport	The Company and Weichai Logistics (as the case may be) <i>(note 1)</i>	Following the completion of the Disposal, Weichai Westport will be held as to 40% by Weichai Holdings, a substantial shareholder of the Company	(a) Provision of logistics services by Weichai Logistics to Weichai Westport (b) Leasing of factory buildings by the Company to Weichai Westport

Note:

1. Weichai Logistics is a 52% subsidiary of the Company.

A summary of the proposed new caps for each of the PRC Continuing Connected Transactions is set out below:

Details of the relevant PRC Continuing Connected Transaction with Weichai Westport

	Proposed new caps		
	For the year ending 31 December 2012 RMB	For the year ending 31 December 2013 RMB	For the year ending 31 December 2014 RMB
(1) Provision of logistics services by Weichai Logistics to Weichai Westport	150,000	900,000	1,350,000
(2) Leasing of factory buildings by the Company to Weichai Westport	350,000	4,200,000	4,200,000

Details of the PRC Continuing Connected Transactions and the relevant agreements

1. *Provision of logistics services by Weichai Logistics to Weichai Westport*

Agreement: A framework agreement in relation to the provision of logistics services by Weichai Logistics to Weichai Westport (“**Weichai Westport Logistics Agreement**”)

Date: 25 December 2012

Parties: 1. Weichai Logistics
2. Weichai Westport

Term: 25 December 2012 to 31 December 2014

Weichai Logistics is a 52% subsidiary of the Company and is principally engaged in the provision of logistics and storage services.

Pursuant to the Weichai Westport Logistics Agreement, Weichai Logistics has agreed to provide certain logistics services to Weichai Westport for the transportation of certain products and after-sale components, at market price of comparable services and settled on a monthly basis, for a term from 25 December 2012 to 31 December 2014, upon the expiry of which the parties may extend the term for three years on a mutually agreed basis. This PRC Continuing Connected Transaction shall be subject to normal commercial terms and terms no less favourable to the Company than those available to the Company from independent third parties.

The provision of logistics services to Weichai Westport by Weichai Logistics commenced in 2012. The table below summarises the actual transaction amounts involved for the 11 months ended 30 November 2012 (unaudited) for the provision of logistics services by Weichai Logistics to Weichai Westport:

	11 months ended 30 November 2012 RMB
Actual transaction amount	453,153

The Company estimates that the transaction amount for the three years ending 31 December 2014 shall not exceed RMB150,000, RMB900,000 and RMB1,350,000 respectively, and the same have been accordingly set as the proposed new caps for this PRC Continuing Connected Transaction.

The Company expects that the transaction amount of the logistics services provided by Weichai Logistics to Weichai Westport for the full year of 2012 to be approximately RMB650,000 and will maintain a relatively steady growth for the two years ending 31 December 2014.

The proposed new caps above have been prepared by the Company primarily based on (i) the historical transaction amount, (ii) the estimate of the volume of logistics services required by Weichai Westport from Weichai Logistics, (iii) the cost of providing such logistics services, (iv) the expected transaction amount for the period from 25 December 2012 to 31 December 2012 and the two years ending 31 December 2014 and (v) the assumption that the volume of logistics services on an annual basis will increase approximately by 38% and 50% for each of the two years ending 31 December 2014 respectively.

The table below summarises the proposed new caps for the PRC Continuing Connected Transaction as set out in this sub-section for three years ending 31 December 2014:

	For the year ending 31 December 2012*	For the year ending 31 December 2013	For the year ending 31 December 2014
	<i>RMB</i>	<i>RMB</i>	<i>RMB</i>
New cap	150,000	900,000	1,350,000

Note:

* *This covers the period from 25 December 2012 to 31 December 2012.*

The proposed new caps for this PRC Continuing Connected Transaction for the term from 25 December 2012 to 31 December 2014 do not exceed the 0.1% Threshold, and, accordingly, this PRC Continuing Connected Transaction is not subject to the reporting, announcement and independent shareholders' approval requirements of the Hong Kong Listing Rules. Further, this PRC Continuing Connected Transaction is of a different nature from and carried out independently of the Continuing Connected Transactions. However, pursuant to the requirements of the Shenzhen Listing Rules, all the PRC Continuing Connected Transactions have been aggregated with the Continuing Connected Transactions and are subject to the approval of the Independent Shareholders.

2. *Leasing of factory buildings by the Company to Weichai Westport*

Agreement: A framework agreement in relation to the leasing of factory buildings by the Company to Weichai Westport (“**Weichai Westport Leasing Agreement**”)

Date: 25 December 2012

Parties: 1. The Company
2. Weichai Westport

Term: 25 December 2012 to 31 December 2014

Pursuant to the Weichai Westport Leasing Agreement, the Company has agreed to lease certain factory buildings with a total gross floor area of approximately 10,657 square meters located at Yard A, No.197 Fushou Street East, High-tech Industrial Development Zone, Weifang City (濰坊市高新技術產業開發區福壽東街197號甲院) to Weichai Westport for a term from 25 December 2012 to 31 December 2014, at an annual rental of RMB4,179,700, settled on a monthly basis. Upon expiry of the Weichai Westport Leasing Agreement, the parties may renew the term for another three years on a mutually agreed basis.

The table below summaries the actual transaction amounts involved for each of the two years ended 31 December 2011 (audited) and the 11 months ended 30 November 2012 (unaudited) for the leasing of the said factory buildings by the Company to Weichai Westport:

	Year ended 31 December 2010 RMB	Year ended 31 December 2011 RMB	11 months ended 30 November 2012 RMB
Actual transaction amount	2,767,036	2,709,389	5,244,092

Since the annual rental of the said factory buildings is expected to remain at RMB4,179,700 for the term from 25 December 2012 to 31 December 2014, the Company estimates that the transaction amount for the three years ending 31 December 2014 shall not exceed RMB350,000, RMB4,200,000 and RMB4,200,000 respectively, and the same have been accordingly set as the proposed new caps for this PRC Continuing Connected Transaction.

The table below summarises the proposed new caps for the PRC Continuing Connected Transaction as set out in this sub-section for the three years ending 31 December 2014:

	For the year ending 31 December 2012*	For the year ending 31 December 2013	For the year ending 31 December 2014
	<i>RMB</i>	<i>RMB</i>	<i>RMB</i>
New cap	350,000	4,200,000	4,200,000

Note:

* *This covers the period from 25 December 2012 to 31 December 2012.*

The proposed new caps for this PRC Continuing Connected Transaction for the term from 25 December 2012 to 31 December 2014 do not exceed the 0.1% Threshold, and, accordingly, this PRC Continuing Connected Transaction is not subject to the reporting, announcement and independent shareholders' approval requirements of the Hong Kong Listing Rules. Further, this PRC Continuing Connected Transaction is of a different nature from and carried out independently of the Continuing Connected Transactions. However, pursuant to the requirements of the Shenzhen Listing Rules, all the PRC Continuing Connected Transactions have been aggregated with the Continuing Connected Transactions and are subject to the approval of the Independent Shareholders.

IV. INDEPENDENT BOARD COMMITTEE AND INDEPENDENT FINANCIAL ADVISER

An Independent Board Committee comprising the independent non-executive Directors (namely, Mr. Liu Zheng, Mr. Li Shihao, Mr. Loh Yih, Mr. Chu, Howard Ho Hwa, Mr. Zhang Zhenhua and Mr. Li Luwen) will be appointed to consider the Continuing Connected Transactions for the two years ending 31 December 2014 and their respective proposed New Caps for the relevant period. An Independent Financial Adviser has been appointed to advise the Independent Board Committee and the Independent Shareholders on the fairness and reasonableness of the Continuing Connected Transactions for the two years ending 31 December 2014 and their respective proposed New Caps.

V. DISPATCH OF CIRCULAR

A circular containing, *inter alia*, (i) further details of the Continuing Connected Transactions for the two years ending 31 December 2014; (ii) a letter from the Independent Board Committee to the Independent Shareholders in relation to the Continuing Connected Transactions for the two years ending 31 December 2014; and (iii) a letter of advice from the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders in relation to the Continuing Connected Transactions for the two years ending 31 December 2014, will be dispatched to the Shareholders on or before 17 January 2013.

VI. DEFINITIONS

In this announcement, the following terms and expressions (unless the context otherwise requires) shall have the following meanings:

“0.1% Threshold”	the thresholds referred to in Rule 14A.31(2)(a) or Rule 14A.33(3) of the Hong Kong Listing Rules
“5% Threshold”	the thresholds referred to in Rule 14A.32 or Rule 14A.34 of the Hong Kong Listing Rules
“Asset Valuation Report”	the asset valuation report of Weichai Westport as at 30 November 2012 issued by 北京中企華資產評估有限公司 (China Enterprise Appraisals Co., Ltd.), an independent qualified valuer in the PRC appointed by the Company
“Board”	the board of Directors
“Company”	濰柴動力股份有限公司 (Weichai Power Co., Ltd.), a joint stock limited company incorporated in the PRC with limited liability
“Consideration”	the consideration for the Sale Equity in accordance with the terms of the Equity Transfer Agreement
“Continuing Connected Transaction(s)”	the continuing connected transaction(s) of the Group within the meaning of the Hong Kong Listing Rules as set out in the section headed “II. The Continuing Connected Transactions” in this announcement
“Director(s)”	director(s) of the Company
“Disposal”	the disposal of the Sale Equity (being 40% of equity interest in Weichai Westport) by the Company to Weichai Holdings
“EGM”	the extraordinary general meeting of the Company to be held to consider, and if thought fit, approve the proposed New Caps for the two years ending 31 December 2014 and the Framework Agreements
“Equity Transfer Agreement”	the equity transfer agreement dated 25 December 2012 entered into between the Company and Weichai Holdings as set out in the section headed “I. Disposal – The Equity Transfer Agreement”

“Exempt Continuing Connected Transaction”	being those Continuing Connected Transactions the proposed New Caps for which exceed the 0.1% Threshold but do not exceed the 5% Threshold, and accordingly, they will only be subject to the reporting requirements set out in Rules 14A.45 and 14A.46 of the Listing Rules, the announcement requirement in Rule 14A.47 of the Listing Rules and the annual review requirements in Rules 14A.37 and 14A.38 of the Listing Rules
“Framework Agreements”	the Weichai Westport Purchase Agreement and the Weichai Westport Supply Agreement
“Group”	the Company and its subsidiaries
“Hong Kong”	the Hong Kong Special Administrative Region of the People’s Republic of China
“Hong Kong Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange
“Independent Board Committee”	a committee of the Board comprising Mr. Liu Zheng, Mr. Li Shihao, Mr. Loh Yih, Mr. Chu, Howard Ho Hwa, Mr. Zhang Zhenhua and Mr. Li Luwen, being the independent non-executive Directors
“Independent Financial Adviser”	the independent financial adviser appointed by the Company to advise the Independent Board Committee and the Independent Shareholders in respect of the Non-Exempt Continuing Connected Transactions
“Independent Shareholders”	Shareholders who are not required to abstain from voting at the EGM
“New Cap(s)”	as defined in the section headed “II. Continuing Connected Transactions” in this announcement
“Non-exempt Continuing Connected Transactions”	being those Continuing Connected Transactions the proposed New Caps for which exceed the 5% Threshold, and accordingly, they will be subject to the reporting requirements set out in Rules 14A.45 and 14A.46 of the Listing Rules, the announcement requirement in Rule 14A.47 of the Listing Rules and the annual review requirements in Rules 14A.37 and 14A.38 of the Listing Rules and approval from the Independent Shareholders at the EGM will be required
“PRC”	the People’s Republic of China

“PRC Continuing Connected Transactions”	has the meaning ascribed to it under the section headed “III. The PRC Continuing Connected Transactions” in this announcement
“PRC GAAP”	the generally accepted accounting principles of the PRC
“RMB”	Renminbi, the lawful currency of the PRC
“Sale Equity”	the 40% equity interest in Weichai Westport being the subject of the Disposal
“Shandong SASAC”	State-owned Assets Supervision and Administration Commission of Shandong Provincial Government (山東省人民政府國有資產監督管理委員會)
“Shareholder(s)”	holder(s) of the shares in the Company
“Shenzhen Listing Rules”	the Rules Governing the Listing of Shares on the Chinext of Shenzhen Stock Exchange
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“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 Logistics”	濰柴動力(濰坊)集約配送有限公司 (Weichai Power (Weifang) Intensive Logistics Company Limited), a company established in the PRC and a 52% subsidiary of the Company
“Weichai Reproduction”	濰柴動力(濰坊)再製造有限公司 (Weichai Power (Weifang) Reproduction Company Limited), a company established in the PRC and a wholly-owned subsidiary of the Company
“Weichai Resources”	濰柴動力(濰坊)備品資源有限公司 (Weichai Power Reserves and Resources Company Limited), a company established in the PRC and a wholly-owned subsidiary of the Company
“Weichai Westport”	濰柴動力西港新能源發動機有限公司 (Weichai Westport Inc.), a company established in the PRC and is expected to become a connected person of the Company following completion of the Disposal

“Weichai Westport Leasing Agreement”	has the meaning ascribed to it under the section headed “III.2 Leasing of factory buildings by the Company to Weichai Westport” in this announcement
“Weichai Westport Logistics Agreement”	has the meaning ascribed to it under the section headed “III.1 Provision of logistics services by Weichai Logistics to Weichai Westport” in this announcement
“Weichai Westport Purchase Agreement”	has the meaning ascribed to it under the section headed “II.2 Purchase of gas engines, gas engine parts and related products by the Company (and its subsidiaries) from Weichai Westport” in this announcement
“Weichai Westport Supply Agreement”	has the meaning ascribed to it under the section headed “II.1 Supply of basic engines, gas engine parts and related products by the Company (and its subsidiaries) to Weichai Westport” in this announcement
“%”	per cent.

By order of the Board
Weichai Power Co., Ltd.
Tan Xuguang
Chairman and CEO

Hong Kong, 25 December 2012

As at the date of this announcement, the executive Directors of the Company are Mr. Tan Xuguang, Mr. Xu Xinyu, Mr. Li Dakai, Mr. Fang Hongwei, Mr. Sun Shaojun and Mr. Zhang Quan; the non-executive Directors of the Company are Mr. Chen Xuejian, Mr. Yeung Sai Hong, Mr. Julius G. Kiss, Ms. Han Xiaoqun, Mr. Jiang Kui and Mr. Liu Huisheng; and the independent non-executive Directors of the Company are Mr. Liu Zheng, Mr. Li Shihao, Mr. Loh Yih, Mr. Chu, Howard Ho Hwa, Mr. Zhang Zhenhua and Mr. Li Luwen.