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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)**

**NON-EXEMPT CONTINUING CONNECTED TRANSACTIONS**

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



**昱豐融資有限公司**  
**CERES CAPITAL LIMITED**

A letter from the Board is set out on pages 5 to 21 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 Non-exempt Continuing Connected Transactions (as defined in this circular) is set out on pages 23 to 45 of this circular.

A notice of the EGM (as defined in this circular) of Weichai Power Co., Ltd., at which the resolutions for approving the Framework Agreements (as defined in this circular) in respect of the Non-exempt Continuing Connected Transactions (as defined in this circular) and the relevant New Caps (as defined in this circular), and the PRC Continuing Connected Transactions (as defined in this circular) will be considered, is set out in 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 January 2013

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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.33(3) of the Hong Kong Listing Rules
“5% Threshold”	the thresholds referred to in Rule 14A.34 of the Hong Kong 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
“Articles of Association”	the articles of association 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
“Continuing Connected Transaction(s)”	the continuing connected transaction(s) of the Group set out in the section headed “II. Continuing Connected Transactions” in this circular
“Director(s)”	the director(s) of the Company
“Disposal”	the disposal of 40% of equity interest in Weichai Westport by the Company to Weichai Holdings
“EGM”	the extraordinary general meeting of the Company to be held on 5 March 2013 to consider and, if thought fit, approve the Framework Agreements in respect of the Non-exempt Continuing Connected Transactions and the PRC Continuing Connected Transactions
“EGM Notice”	the notice convening the EGM dated 17 January 2013 contained in this circular
“Framework Agreements”	the Weichai Westport Purchase Agreement and the Weichai Westport Supply Agreement
“Group”	the Company and its subsidiaries

## DEFINITIONS

“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 Hong Kong Stock Exchange
“Hong Kong Listing Rules”	the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited
“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”	Ceres Capital Limited, 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 in respect of the Non-exempt Continuing Connected Transactions
“Latest Practicable Date”	14 January 2013
“New Cap(s)”	as defined in the section headed “II. Continuing Connected Transactions” in this circular
“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 Hong Kong Listing Rules, the announcement requirement in Rule 14A.47 of the Hong Kong Listing Rules and the annual review requirements in Rules 14A.37 and 14A.38 of the Hong Kong Listing Rules and approval of 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 “IV. The PRC Continuing Connected Transactions” in this circular

## DEFINITIONS

“RMB”	Renminbi, the lawful currency of the PRC
“Shareholder(s)”	holder(s) of the shares of 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 a connected person of the Company
“Weichai Westport Leasing Agreement”	has the meaning ascribed to it under the section headed “IV.2 Leasing of factory buildings by the Company to Weichai Westport” in this circular
“Weichai Westport Logistics Agreement”	has the meaning ascribed to it under the section headed “IV.1 Provision of logistics services by Weichai Logistics to Weichai Westport” in this circular
“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 circular

## DEFINITIONS

“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 circular

“%”

per cent.

*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)**

*Executive Directors:*

Tan Xuguang (*Chairman*)  
Xu Xinyu  
Li Dakai  
Fang Hongwei  
Sun Shaojun  
Zhang Quan

*Non-executive Directors:*

Chen Xuejian  
Yeung Sai Hong  
Julius G. Kiss  
Han Xiaoqun  
Jiang Kui  
Liu Huisheng

*Independent non-executive Directors:*

Liu Zheng  
Li Shihao  
Loh Yih  
Chu, Howard Ho Hwa  
Zhang Zhenhua  
Li Luwen

*Supervisors:*

Sun Chengping  
Jiang Jianfang  
Lu Wenwu

*Registered office:*

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The People's Republic of China

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

17 January 2013

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

Dear Sir or Madam,

**NON-EXEMPT CONTINUING CONNECTED TRANSACTIONS**

**I. INTRODUCTION**

It was announced by the Board on 25 December 2012 that, *inter alia*, on 25 December 2012, the Company entered into the Framework Agreements to govern the principal terms of the Continuing Connected Transactions. This circular gives you further information in relation to

## LETTER FROM THE BOARD

the 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 Non-exempt Continuing Connected Transactions.

As disclosed in the said announcement, the Company also entered into the PRC Continuing Connected Transactions as set out in the section headed “IV. PRC CONTINUING CONNECTED TRANSACTIONS” in this circular.

### II. 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
Weichai Westport	The Company, Weichai Resources and Weichai Reproduction (as the case may be) <i>(note 1)</i>	Weichai Westport is held as to 40% by Weichai Holdings, a substantial shareholder of the Company	<p>(a) Supply of basic engines (or base 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>

*Notes:*

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



## LETTER FROM THE BOARD

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 ended	For the year ending	For the year ending
	31 December	31 December	31 December
	2012	2013	2014
	RMB	RMB	RMB
(1) Supply of basic engines (or base engines), gas engine parts and related products by the Company (and its subsidiaries) to Weichai Westport	200,000,000*	2,100,000,000 <sup>#</sup>	2,800,000,000 <sup>#</sup>
(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 <sup>#</sup>	5,500,000,000 <sup>#</sup>

*Note:*

- 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.
- 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.
- 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.

## LETTER FROM THE BOARD

### 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 which took place on 31 December 2012, Weichai Westport is held as to 40% by Weichai Holdings, a substantial Shareholder of the Company. Accordingly, Weichai Westport is a connected person of the Company and the transactions conducted in the ordinary course of business between the Group and Weichai Westport which continue after completion of the Disposal constitute continuing connected transactions of the Company under the Hong Kong Listing Rules. Furthermore, Weichai Westport is held as to 25% by Peterson (CNG) Equipment Limited, which is in turn ultimately wholly-owned by Yeung Sai Hong, a non-executive Director.

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 (or base 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 (or base 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.

## LETTER FROM THE BOARD

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 (or base 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 (or base 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 (or base 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 (or base engines), gas engine parts and related products sold by the Group to Weichai Westport for modification and assembly into gas engines shall increase substantially by approximately 110% 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 of approximately 33% for the year ending 31 December 2014 based on the projection of market demand for the Group's heavy-duty vehicles (with gas engines installed) and gas engines, and their normal product life cycle. The projected growth of the said transaction amount for the year ending 31 December 2014 is lower than that for the year ending 31 December 2013 as the Company expects the market for the said products will gradually mature following the substantial increase in the transaction amounts expected for the two years preceding the year ending 31 December 2014 and, accordingly, the Company expects the market demand for the said products will gradually stabilise.

## LETTER FROM THE BOARD

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 (or base engines), gas engine parts and related products required by Weichai Westport, (iii) the average unit prices of such basic engines (or base 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 (or base engines), gas engine parts and related products to Weichai Westport on an annual basis will increase by approximately 110% and 33% for each of the two years ending 31 December 2014 respectively taking into account all the aforesaid factors.

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:

	<b>For the year ended 31 December 2012*</b>	<b>For the year ending 31 December 2013</b>	<b>For the year ending 31 December 2014</b>
	<i>RMB</i>	<i>RMB</i>	<i>RMB</i>
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 ended 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 completion of the Disposal took place on 31 December 2012, the transaction contemplated under the Weichai Westport Supply Agreement has only constituted a Continuing Connected Transaction of the Company since 31 December 2012. The actual transaction amount for this Continuing Connected Transaction on 31 December 2012 did not exceed the proposed New Cap for the year ended 31 December 2012.

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.

## LETTER FROM THE BOARD

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.

## LETTER FROM THE BOARD

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 by approximately 110% 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 of approximately 31% for the year ending 31 December 2014 based on the projection of market demand for the Group's heavy-duty vehicles (with gas engines installed) and gas engines, and their normal product life cycle. The projected growth of the said transaction amount for the year ending 31 December 2014 is lower than that for the year ending 31 December 2013 as the Company expects the market for the said products will gradually mature following the substantial increase in the transaction amounts expected for the two years preceding the year ending 31 December 2014 and, accordingly, the Company expects the market demand for the said products will gradually stabilise.

## LETTER FROM THE BOARD

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 by approximately 110% and 31% for each of the two years ending 31 December 2014 respectively taking into account all the aforesaid factors.

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:

	<b>For the year ended 31 December 2012*</b>	<b>For the year ending 31 December 2013</b>	<b>For the year ending 31 December 2014</b>
	<i>RMB</i>	<i>RMB</i>	<i>RMB</i>
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 ended 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 completion of the Disposal took place on 31 December 2012, the transaction contemplated under the Weichai Westport Purchase Agreement has only constituted a Continuing Connected Transaction of the Company since 31 December 2012. The actual transaction amount for this Continuing Connected Transaction on 31 December 2012 did not exceed the proposed New Cap for the year ended 31 December 2012.

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.



## LETTER FROM THE BOARD

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 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.

### III. REASONS FOR THE CONTINUING CONNECTED TRANSACTIONS AND LISTING RULES IMPLICATIONS

The Board is of the view that (i) the sale of basic engines (or base 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 (or base 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 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 Directors are not aware of any disadvantage of the Continuing Connected Transactions to the Group.

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, including the independent non-executive Directors (having considered 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.

As all of the relevant percentage ratios calculated in accordance with the Hong Kong Listing Rules for the Continuing Connected Transactions for the year ended 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 ended 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.



## LETTER FROM THE BOARD

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.

### IV. THE PRC CONTINUING CONNECTED TRANSACTIONS

In addition to the Continuing Connected Transactions, certain other transactions conducted between the Group and Weichai Westport in the ordinary course of business continue after 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 relevant proposed new caps**

The PRC 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
Weichai Westport	The Company and Weichai Logistics (as the case may be) <i>(note 1)</i>	Weichai Westport is 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.

## LETTER FROM THE BOARD

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 ended	For the year ending	For the year ending
	31 December	31 December	31 December
	2012	2013	2014
	RMB	RMB	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.

## LETTER FROM THE BOARD

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:

	<b>11 months ended 30 November 2012 RMB</b>
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 by approximately 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 the three years ending 31 December 2014:

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

*Note:*

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

## LETTER FROM THE BOARD

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

## LETTER FROM THE BOARD

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:

	<b>For the year ended 31 December 2012*</b>	<b>For the year ending 31 December 2013</b>	<b>For the year ending 31 December 2014</b>
	<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.

### V. EGM

It is proposed that the relevant New Caps and the Framework Agreements in respect of the Non-exempt Continuing Connected Transactions, and 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 relevant New Caps and the Framework Agreements in respect of the Non-exempt Continuing Connected Transactions, and the PRC Continuing Connected Transactions, is set out in this circular. No Shareholder is required to abstain from voting in respect of the resolutions for approval of the relevant New Caps and the Framework Agreements in respect of the Non-exempt Continuing Connected Transactions, and the PRC Continuing Connected Transactions, and it is a requirement of the Hong Kong Listing Rules that such voting must be taken by poll.

## LETTER FROM THE BOARD

If you intend to attend the EGM, please complete and return the reply slip enclosed in this circular in accordance with the instructions printed thereon as soon as possible and in any event by no later than 13 February 2013.

The proxy form for use at the EGM is enclosed with this circular. 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 Securities 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.

### VI. 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), are of the opinion that the relevant New Caps and the terms of the Framework Agreements in respect of the Non-exempt Continuing Connected Transactions are fair and reasonable 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. Liu Zheng, Mr. Li Shihao, Mr. Loh Yih, Mr. Chu, Howard Ho Hwa, Mr. Zhang Zhenhua and Mr. Li Luwen) has been appointed to consider the Non-exempt 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 Framework Agreements in respect of the Non-exempt 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 Framework Agreements in respect of the Non-exempt Continuing Connected Transactions, which are set out in this circular.

<b>LETTER FROM THE BOARD</b>
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**VII. 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 NON-EXEMPT 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 January 2013

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

Dear Sir or Madam,

**NON-EXEMPT 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 Framework Agreements and the relevant New Caps (as defined in the circular of the Company dated 17 January 2013) (the “**Circular**”) in relation to the Non-exempt Continuing Connected Transactions, details of which are set out in the section headed “II. 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 Non-exempt Continuing Connected Transactions as set out in the “Letter from the Independent Financial Adviser on the Non-exempt 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 Non-exempt Continuing Connected Transactions and the relevant New Caps are fair and reasonable and the Non-exempt Continuing Connected Transactions are 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 Framework Agreements and the relevant New Caps for the Non-exempt Continuing Connected Transactions.

Yours faithfully,  
The Independent Board Committee

**Liu Zheng**  
*Independent  
non-executive Director*

**Li Shihao**  
*Independent  
non-executive Director*

**Loh Yih**  
*Independent  
non-executive Director*

**Chu, Howard Ho Hwa**  
*Independent  
non-executive Director*

**Zhang Zhenhua**  
*Independent  
non-executive Director*

**Li Luwen**  
*Independent  
non-executive Director*



**LETTER FROM THE INDEPENDENT FINANCIAL ADVISER  
ON THE NON-EXEMPT CONTINUING CONNECTED TRANSACTIONS**

*The following is the full text of the letter dated 17 January 2013 from Ceres Capital Limited, the independent financial adviser to the Independent Board Committee and the Independent Shareholders in respect of the Non-exempt Continuing Connected Transactions and the respective New Caps, prepared for the purpose of incorporation in this circular.*



**星豐融資有限公司  
CERES CAPITAL LIMITED**

Suite 901, Level 9  
The Hong Kong Club Building  
3A Chater Road, Central  
Hong Kong

17 January 2013

*To the independent board committee and  
the independent shareholders of Weichai Power Co., Ltd.*

Dear Sirs,

**NON-EXEMPT CONTINUING CONNECTED TRANSACTIONS  
AND NEW CAPS**

**INTRODUCTION**

We refer to our appointment as the independent financial adviser to the independent board committee (the “**Independent Board Committee**”) and the independent shareholders (the “**Independent Shareholders**”) of Weichai Power Co., Ltd. (the “**Company**”) in respect of the Framework Agreements governing the Non-exempt Continuing Connected Transactions and the relevant New Caps, details of which are set out in the circular to the Shareholders dated 17 January 2013 (the “**Circular**”), of which this letter forms part. This letter contains our advice to the Independent Board Committee and the Independent Shareholders in respect of the Framework Agreements governing the Non-exempt Continuing Connected Transactions and the relevant New Caps. Unless otherwise stated, terms defined in the Circular have the same meanings in this letter.

On 25 December 2012, the Board announced, among other things, that the Group entered into the Framework Agreements with Weichai Westport to govern the principal terms of the Continuing Connected Transactions from 25 December 2012 to 31 December 2014. Weichai Westport is held as to 40% by Weichai Holdings, a substantial shareholder of the Company, and is therefore an associate of Weichai Holdings and a connected person of the Company under the Hong Kong Listing Rules. As 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 under Chapter 14A of the Hong Kong Listing Rules. Accordingly, the Framework Agreements governing the Continuing Connected Transactions and the respective New Caps for the two years ending 31 December 2014 are required to be subject to, among other things, the approval of

<p style="text-align: center;"><b>LETTER FROM THE INDEPENDENT FINANCIAL ADVISER ON THE NON-EXEMPT CONTINUING CONNECTED TRANSACTIONS</b></p>
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the independent shareholders at a general meeting of the Company pursuant to Chapter 14A of the Hong Kong Listing Rules. The Independent Board Committee, comprising six independent non-executive Directors, has been formed to advise the Independent Shareholders in this regard.

As the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders, our role is to give an independent opinion to the Independent Board Committee and the Independent Shareholders as to (i) whether the Framework Agreements are in the interests of the Company and the Shareholders as a whole and the transactions contemplated thereunder are in the ordinary and usual course of business of the Group; (ii) whether the terms of the Framework Agreements are normal commercial terms and are fair and reasonable; (iii) whether the New Caps for the two years ending 31 December 2014 are fair and reasonable; and (iv) whether the Independent Shareholders should vote in favour of the ordinary resolutions to approve the Framework Agreements and the New Caps for the two years ending 31 December 2014 at the EGM.

In formulating our opinion, we have relied on the statements, information, opinions and representations contained in the Circular and the information and representations provided to us by the Company and the Directors. We have assumed that all information, representations and opinions contained or referred to in the Circular, which have been provided by the Company and the Directors and for which they are solely and wholly responsible, were true and accurate at the time they were made and continue to be so as at the date hereof. 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. The Directors have confirmed, having made all reasonable enquiries, that to the best of their knowledge and belief, the information contained in the 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 in the Circular, including this letter, misleading. We consider that we have reviewed sufficient information which enables us to form a reasonable basis for our opinion. We also consider that we have performed all reasonable steps as required under Rule 13.80 of the Hong Kong Listing Rules to ascertain the reliability of the information provided to us and to form our opinion. We have not, however, conducted any independent verification of the information provided, nor have we carried out any in-depth investigation into the business, financial results and positions and affairs of the Group or any parties involved in the Non-exempt Continuing Connected Transactions, or the prospects of the markets in which they respectively operate.

Our opinion is necessarily based upon economic, market and other conditions and circumstances existing on, and the facts, information and representations made available to us up to and including, the Latest Practicable Date. Although subsequent developments may affect our opinion, we do not have any obligation to update, revise or reaffirm our opinion contained herein.

<p style="text-align: center;"><b>LETTER FROM THE INDEPENDENT FINANCIAL ADVISER ON THE NON-EXEMPT CONTINUING CONNECTED TRANSACTIONS</b></p>
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Apart from the normal advisory fee payable to us in connection with our appointment as the independent financial adviser to the Independent Board Committee and the Independent Shareholders, no arrangement exists whereby we shall receive any other fees or benefits from the Company. We are independent of the Company for the purposes of Rule 13.84 of the Hong Kong Listing Rules.

## **PRINCIPAL FACTORS CONSIDERED**

In formulating our opinion regarding the Framework Agreements and the New Caps for the two years ending 31 December 2014, we have taken into consideration the following principal factors:

### **1. Background information**

#### *(a) Overview of the business operation and performance of the Company*

As stated in the Company's annual report for 2011 (the "**2011 Annual Report**"), the Company is one of the largest manufacturers of high-speed diesel engines in the PRC and a leading company in the power train market. It is equipped with a comprehensive supply chain of engines, gear boxes and axles.

The Group is the largest supplier of diesel engines for heavy-duty trucks of 14 tonnes (and above) and for construction machinery (mainly wheel loaders) with a load capacity of 5 tonnes (and above) in the PRC. In 2011, the Group sold approximately 318,400 units of diesel truck engines, representing a market share of about 36% based on the total domestic sales of approximately 880,600 units of heavy-duty trucks with a gross weight of above 14 tonnes in the PRC for the same period. The Group also sold 139,100 units of construction machinery engines in 2011, of which 126,300 units were for wheel loaders with a load capacity of 5 tonnes (and above) representing a leading position in the industry with a market share close to 78%.

During 2011, the Group also sold approximately 100,300 units of heavy-duty trucks, and approximately 701,200 units of heavy-duty gear boxes. Based on such sales volume and the total domestic sales of approximately 880,600 units of heavy-duty trucks in the PRC in 2011, the Group had also maintained a leading position in the heavy-duty vehicles industry.

Apart from the production and sale of diesel engines for trucks and construction machinery, heavy-duty trucks and heavy-duty gear boxes, the Group is also engaged in the production and sale of parts and components for engines and trucks, such as spark plugs, axles, chassis, air-conditioner compressors, etc. In 2011, the Group's sales of such parts and components amounted to approximately RMB2,906 million, representing about 5% of its total turnover.

<p style="text-align: center;"><b>LETTER FROM THE INDEPENDENT FINANCIAL ADVISER</b>  <b>ON THE NON-EXEMPT CONTINUING CONNECTED TRANSACTIONS</b></p>
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The following is a summary of the audited financial results of the Group for each of the three years ended 31 December 2009, 2010 and 2011, and the six months ended 30 June 2012, which are extracted from the Company's annual reports for 2010 and 2011 and the 2012 interim report.

	Year ended 31 December			6 months ended
	2009	2010	2011	30 June
	RMB'000	RMB'000	RMB'000	RMB'000
	(audited)	(audited)	(audited)	(audited)
Turnover	35,260,899	63,279,564	60,019,265	27,059,676
Profit attributable to the Shareholders	3,406,935	6,782,145	5,596,927	1,897,253

Following the business expansion from the research, production and sale of engines and related products, to include heavy-duty vehicles, gear boxes and other parts and components of vehicles by way of a merger which was completed in 2007, the Group had recorded substantial growth in both its turnover and net profit. For the year ended 31 December 2009, the Group reported a total turnover of approximately RMB35,261 million and profit attributable to the Shareholders of approximately RMB3,407 million.

For the year ended 31 December 2010, the Group's audited turnover reached approximately RMB63,280 million, representing a year-on-year increase of approximately 79.5%. As noted in the Company's 2010 annual report, the increase was mainly due to the significant growth of the automobile industry and the construction machinery industry, both benefitting from the Chinese government's RMB4 trillion stimulus package. With the expansion of the scale of operations, the Group posted a record high profit attributable to the Shareholders of approximately RMB6,782 million for 2010, almost two times as much as that of the preceding year.

In 2011, the Chinese government continued to implement its proactive fiscal and monetary policies, and macroeconomic measures were intensified to cool down the overheated economy, in particular to curb inflation and real estate prices. In line with the overall downturn of the market, the Group reported a slight decrease of approximately 5.2% in its turnover to approximately RMB60,019 million for 2011. Due primarily to the change in product structure, the Group also recorded a decrease in its profit margin for 2011 to approximately 9.3%, compared to approximately 10.7% for 2010. As a result, the Group's profit attributable to the Shareholders for 2011 fell to approximately RMB5,597 million, representing a 17.5% drop from that of 2010. As indicated in the 2011 Annual Report, the automobiles and major automobile components business of the Group which accounted for an increasing portion of approximately 56.5% of its total turnover for 2011 had a segment profit margin of approximately 4.98%. The diesel engines business accounted for approximately 40.6% of the Group's total turnover for 2011, and commanded a segment profit margin of approximately 23.0%.

<p style="text-align: center;"><b>LETTER FROM THE INDEPENDENT FINANCIAL ADVISER ON THE NON-EXEMPT CONTINUING CONNECTED TRANSACTIONS</b></p>
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In the first half of 2012, China's economic growth and fixed asset investment growth continued to slow due to the cumulative effect of the government's tightening macroeconomic policy. For the six months ended 30 June 2012, the Group recorded a turnover of approximately RMB27,060 million, representing a drop of approximately 26.1% compared to that for the corresponding period in 2011. Profit attributable to the Shareholders for the same period also declined by approximately 45.7% to approximately RMB1,897 million.

*(b) Overview of China's economy and the heavy-duty trucks market in China*

As stated in the letter from the Board contained in the Circular (the "**Letter from the Board**"), the products sold by the Group to Weichai Westport are base engines, gas engine parts and related products. These engines and parts are modified and assembled by Weichai Westport and are then bought back as gas engines, gas engine parts and related products by the Group for onward sale to its customers, including members of the Group. As advised by the Company, the gas engines purchased by the Group from Weichai Westport are currently used primarily in heavy-duty trucks, passenger vehicles, and high-power construction machinery.

The economic development in China has a significant impact on the heavy-duty vehicles industry as economic growth would generally result in increased demand for bulk commodities. This would lead to significant growth of highway freight transport and the trucking industry as they haul the steel, coal, and other raw materials to manufacturing plants around the country, deliver building materials to construction sites, transport cargos to and from container terminals, and carry finished goods to markets, etc.

China had recorded two years of double-digit percentage growth in its gross domestic product ("**GDP**") since 2006 which then slipped to 9.6% in 2008 as a result of the global financial crisis. Despite the widening global economic downturn since the second half of 2008, China's economy has remained relatively strong compared with most economies, particularly the United States and Europe. According to statistics issued by the National Bureau of Statistics of China, China's GDP reached RMB33.09 trillion in 2009, or an annual growth of 9.2% from 2008, exceeding the government's annual target of 8%. In 2010, China's GDP continued to grow by 10.3% to hit RMB39.80 trillion. The double-digit growth in 2010 was buoyed largely by strong public investments. Since November 2008, the government has adopted a series of stimulus measures under a RMB4 trillion stimulus package, including tax cuts, and consumer subsidies to shore up growth and employment. An important component of the stimulus package was the revitalization scheme for ten major industries, including steel, car making, textiles and machinery, to which the government channeled large investments. It also adopted preferential policies to encourage sales of home appliances, cars and motorbikes in rural areas. More government investment was directed to infrastructure, scientific research and public services.

## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER ON THE NON-EXEMPT CONTINUING CONNECTED TRANSACTIONS

While the RMB4 trillion stimulus policy has helped China weather the global financial crisis, it also created lingering problems in China, including asset bubbles, inflation and redundant projects. Moving to dampen inflation pressures and curb property prices, the People's Bank of China ("PBOC") raised the reserve ratio requirement for banks six times in 2010 and another six times in the first seven months in 2011. During the same period, it also lifted the benchmark interest rates five times. The tightening measures have had an impact in controlling lending and inflation, and the economic growth has slowed as a consequence. In 2011, GDP of China grew at 9.2%, a full percentage point less than in 2010.

Meanwhile the Eurozone debt crisis continued to deteriorate in 2011 and posed severe challenges to world economic recovery. China's economic indicators, such as those on investment and industrial output, and purchasing, production and new order indices, continued their downward trend and were below expectations. Dragged by lackluster external market and government efforts to cool inflation, China saw slower growth for seven consecutive quarters and its GDP growth hit a three-year low of 7.4% in the third quarter of 2012. According to the National Bureau of Statistics, the year-on-year GDP growth in the first three quarters of 2012 decreased to 7.7%. In March 2012, Prime Minister Wen Jiabao predicted at the opening of an annual meeting of the National People's Congress that China's growth for 2012 would be 7.5%, a steep drop from the 9.2% of 2011.

In an attempt to prevent a further slowdown in economic growth, the PRC authorities have taken measures and began to ease macroeconomic policies. In December 2011, the PBOC cut banks' reserve requirements for the first time in three years to spur lending. In June 2012, the PBOC also cut benchmark interest rates for the first time since 2008, stepping up efforts to combat a deepening slowdown as the Eurozone debt crisis threatens global growth.

During the past few years, the thriving heavy-duty vehicles industry in the PRC has been driven by economic growth in the country. The government's expansionary macroeconomic policies and the rapid growth of fixed assets and infrastructure investments in the PRC, such as those under 國家西北大開發戰略 (the State's North-West Great Development Strategy), the Beijing 2008 Olympic Games and the World Expo 2010 in Shanghai, had stimulated the development of the heavy-duty vehicles industry in the PRC. Further, with the completion of the construction and improvement of highway networks in the PRC, the market of transportation vehicles has entered into a rapid growth period and the evolution of vehicles has moved toward the heavy-duty side.

According to the statistics of China Association of Automobile Manufacturers (中國汽車工業協會), the sales volume of heavy-duty trucks in China had more than doubled from about 303,600 units in 2006 to about 636,000 units in 2009. Fuelled by the Chinese government's RMB4 trillion stimulus package, construction and infrastructure activities had continued to expand in China and boosted the sales of heavy-duty trucks to 1,017,400 units in 2010, representing a whopping growth of almost 60% year-on-year. However, beginning in 2011, the growth momentum of the heavy-duty vehicles sector began to slow due to the tightening macroeconomic policies and the slowdown in both real estate and infrastructure construction in China. The annual sales of heavy-duty trucks dropped



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about 13% year-on-year to about 880,600 units in 2011. Along with the continued economic slowdown, the sales of heavy-duty trucks in China continued to decline to about 371,600 units in the first half of 2012, representing a drop of about 31.6% compared to the corresponding period in 2011.

Historical data have indicated that there is significant positive correlation between the development of the heavy-duty vehicles market and economic growth in China. While China has been undergoing economic reform towards a market-oriented economy, its economic development remains largely planned and managed through the implementation of the National Five-Year Plan which largely involved a proactive fiscal policy and a prudent monetary policy.

The National 12th Five-Year Plan (2011-2015), approved in March 2011, seeks to rebalance the pattern of growth in China. The key objectives under the 12th Five-Year Plan are, among others, to achieve an average GDP growth target of 7%, putting emphasis on sustainable growth, to encourage innovation, and to restructure the industrial sector. China no longer makes the growth rate its top priority in its industrial development plan, focusing instead on the quality and the sustainability of industrial growth. The Chinese government encourages research and development. It plans to restructure its industrial sector to improve productivity by upgrading its manufacturing industry with technology, and to focus on industries that emphasize added value.

The targets under the 12th Five-Year Plan indicate that the Chinese authorities are willing to forgo some speed of GDP growth in order to make it more inclusive and environmentally sustainable. As in previous years, though, it is expected that actual growth will exceed the stated target. The stance of the Chinese government is expected to remain supportive of growth as evidenced by the PBOC's proactive move to reduce banks' reserve ratio requirement three times since December 2011 and to cut the benchmark interest rates twice in June and July of 2012 respectively in a bid to boost lending. In an article published on the fourth issue of 2012 of Qiushi Journal (求是) which publicizes the governing philosophy of the Communist Party of China, Li Keqiang, Vice Premier of the State Council, has reiterated that the Chinese government should focus on stable and relatively rapid growth in order to drive economic and social development. As reported by Xinhua News on 15 August 2012, Premier Wen Jiabao had emphasized during an inspection tour of Zhejiang Province that the country had adopted a raft of pro-growth measures to shore up growth which included more aggressive tax reduction, issuing subsidies to support enterprises' technology upgrades, and opening state-run sectors to private investors. Premier Wen also cited a stable job market in China, which saw 8.12 million new urban jobs created in the first seven months of 2012, and easing price gains, which would provide more room for monetary loosening. With Chinese leaders having openly expressed concerns about China's weakening growth, it is therefore generally expected that the government is planning to expedite infrastructure spending and boost economic growth. In fact, on 11 July 2012, the State Council has indicated that it will boost the development of the nation's distribution industry with the goal of establishing a modern goods distribution system that is efficient, competitive and open. The distribution industry includes multiple sub-sectors, including wholesale, retail and logistics, and the government will construct major distribution networks, optimize the structure of the

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sector in urban regions and increase the number of service branches in rural areas so that farm produce and industrial goods can move smoothly between cities and the countryside. The government will also support the construction and transformation of related infrastructure. On 10 August 2012, Xinhua News reported a statement by the Ministry of Housing and Urban-Rural Development that construction of 5.8 million low-income housing units had commenced in the first seven months of 2012, of which 3.6 million units had been basically completed. The large-scale low-income housing project under the 12th Five-Year Plan with a goal of building 36 million units by the end of 2015 is not only meant to provide affordable housing to low-income workers and pensioners, but is also expected to boost industrial and economic growth as construction activities slow in the private real estate market. On 5 September 2012 and 6 September 2012, the National Development and Reform Commission, the top central planning agency of China, announced the approvals of a series of infrastructural construction projects, including 25 urban rail projects, 13 highway construction projects, seven waterway projects and nine waste water treatment plants. The total cost of the projects is estimated to be about RMB1 trillion, or about 2 per cent of China's GDP of approximately RMB47.16 trillion in 2011. The move marks the government's latest effort to boost economic growth when external demand remains weak. It is expected that these projects will be implemented gradually, which will cause investment growth in China to rise.

Driven by the continued construction of highways under the "Go West" policy aimed for the integrated development of central and western China, the launch of large-scale low-income housing construction as part of the government's strategy to stabilize property prices and to improve public welfare, the strengthening of agricultural and rural infrastructure, the continuous development of urban infrastructure as part of the urbanization process, and the development of modern logistics industry, the demand for heavy-duty vehicles and high-power construction machinery is expected to increase.

The 12th Five-Year Plan also sets out seven major new strategic industries, for which favorable policies will be implemented to nurture their development over the next five years. The strategic industries include new energy, biotechnology, new-generation information technology, high-end equipment manufacturing, advanced materials, alternative-fuel cars, and energy-saving and environmental protection.

The development of the strategic sectors in China's economy, including technological innovation, new energy, alternative-fuel cars, and environmental protection industries, etc., will create great demands for new and advanced heavy-duty vehicles and high-power engines and construction machineries with enhanced performance, and provide enormous opportunities for manufacturers of such products.

Going forward, it is therefore essential for the Group to continue its strategy in strengthening its technological innovation, enhancing its product performance and competitiveness, especially in environmental protection, energy saving and reliability. In this regard, the Group has mentioned in its 2011 Annual Report, among other things, that it will expedite the research and development of its third-generation heavy-duty trucks and will keep enhancing the technological contents of such products. For its engine products, the Group will thoroughly look into diesel-saving technology, emission



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technology and whole-vehicle matching technology, with a view to continually enhancing the overall performance of its products and better catering for the needs of customers. Leveraging on its advanced technology, fully-integrated production, and the capability of mass production of high-quality products, the Group is in an advantageous position to capture the development opportunities presented in the National 12th Five-Year Plan. It is therefore expected that the heavy-duty vehicles and high-power engines businesses will continue to provide significant contribution and positive growth to the Group's overall development in the coming few years.

Notwithstanding the aforesaid, Independent Shareholders should also note that factors such as the possibility of continuous or deepening economic downturn particularly in the United States and Europe, may further affect the macroeconomic environment in China. China's economic growth may or may not be sustainable in a worsening global economic environment and in the absence of new stimulus measures by the government. In particular, the fiscal and monetary policies adopted by the government are key factors in keeping China's economic growth. The economy in China may slow down due to various reasons including unforeseen factors and hence any such economic slowdown may have impact on the Group's business.

*(c) Relationship between the Group and the connected person under the Framework Agreements*

As stated in the Letter from the Board, Weichai Westport is held as to 40% by Weichai Holdings, a substantial shareholder of the Company. Accordingly, Weichai Westport is a connected person of the Company pursuant to the Hong Kong Listing Rules.

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.

**2. Reasons for the Continuing Connected Transactions**

As stated in the Letter from the Board, the Board considers that the Continuing Connected Transactions under the Framework Agreements will allow the Group to maintain strong strategic and business relationships with Weichai Westport, thereby generating synergy potential and mutual economic benefits. The Board also considers that these Continuing Connected Transactions will 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.

As stated in the Letter from the Board, 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. Weichai Westport is held as to 35% by Westport Innovations Inc. ("WII"), the shares of which are traded on the Toronto Stock Exchange and the NASDAQ stock market. According to its website, WII is one of the leading global suppliers of proprietary solutions that allow engines to operate on clean-burning fuels, such as compressed natural gas, liquefied natural gas ("LNG"), hydrogen, and renewable

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natural gas fuels and help reduce greenhouse gas emissions. WII's technology offers advanced LNG fueling systems with direct injection natural gas engine technology for heavy-duty vehicles and off-road applications, such as mining and rail. WII has an extensive intellectual property portfolio in relation to natural gas injection/engine/combustion technology, and has over 400 patent applications filed, of which more than 290 patents have been issued worldwide. In March 2012, Weichai Westport announced the introduction of China's first natural gas engine featuring high pressure direct injection ("HPDI") technology. The newly developed HPDI natural gas engine, based on the Group's WP12 engine platform and featuring WII's HPDI technology, delivers the same power, torque and performance of diesel engine, but allows the replacement of up to 95% of diesel fuel with cleaner burning and less expensive natural gas. By using the HPDI gas engines, it is expected that fleet customers can achieve significant economic benefits as a result of the lower price of natural gas than that of diesel fuel and fuel-saving properties of HPDI gas engine. Weichai Westport's HPDI gas engine complies with China V emission standards, and is currently undergoing road testing on heavy-duty vehicle with an OEM customer, which is an associate of the Group. It is expected that the HPDI gas engine developed by Weichai Westport will become an economic and environmental transportation solution to address China's environmental protection policy. With a wide range of applications of HPDI gas engine, and with the implementation of China's policies on environmental protection and energy conservation, it is expected that Weichai Westport's gas engine products will also have favourable market prospects.

By conducting the Continuing Connected Transactions under the Framework Agreements, the Group can capitalize on the research and development capabilities and intellectual property of WII through Weichai Westport without making its own investment in such areas. The Group can also extend its product offerings with the addition of various gas-powered versions of heavy-duty vehicles and gas-powered engines and construction machineries, etc., thus satisfying different and changing market needs and strengthening its market share and position.

The development of new-energy high-powered trucks and related automobile products and energy-saving construction machineries is in line with the development of strategic industries under the National 12th Five-Year Plan to accelerate the development of alternative-fuel cars, and the promotion of energy-saving and environmental protection.

On the basis of the reasons discussed above, we concur with the Directors that it is in the interests of the Company and the Shareholders as a whole to carry on the Non-exempt Continuing Connected Transactions with Weichai Westport so long as the terms of the transactions are fair and reasonable.

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**3. Non-exempt Continuing Connected Transactions between the Group and Weichai Westport**

(a) *Supply of base engines, gas engine parts and related products by the Group to Weichai Westport*

(i) Principal terms of the Weichai Westport Supply Agreement

Pursuant to the Weichai Westport Supply Agreement, each of the Company, Weichai Resources and Weichai Reproduction has agreed to supply certain base 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.

Pursuant to the Weichai Westport Supply Agreement, the parties shall enter into specific contracts, orders and/or confirmation documents which set out the specific terms including, as appropriate, the particulars of goods, quantity, price, delivery and inspection methods, settlement method, etc. and such terms must be based on the principle of fairness and reasonableness and must not contravene the terms of the Weichai Westport Supply Agreement. Payment for the goods shall be made by cash on normal commercial settlement terms.

As advised by the Group, it usually sells diesel engines to customers in complete set and does not sell base engines, except to Weichai Westport which uses the Group's base engines as the engine platform for modification, processing and assembly into gas engines, which are then sold back to the Group.

Under the Weichai Westport Supply Agreement, the prices of the goods are market prices, and/or prices agreed according to the principle of fairness and reasonableness. We have discussed with the Group which has confirmed that in determining the sale prices under the Weichai Westport Supply Agreement, the Group will consider the overall market condition, its own costs of materials and production, the processing fees, and the purchase prices to be paid by the Group to Weichai Westport for buying back the gas engines under the Weichai Westport Purchase Agreement. We have noted that the Weichai Westport Supply Agreement does not provide for exclusive arrangement for the supply of goods by the Group to Weichai Westport. In other words, the Group is not obligated to supply any goods, including base engines, to Weichai Westport if the Group does not consider the prices offered by Weichai Westport fair or reasonable, or if the Group considers it more commercially sensible to reserve the base engines for its own manufacturing use. We therefore consider that despite the absence of comparable market prices for the Group's base engines, the price determination process of the Group as described

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above demonstrates a normal commercial approach and should result in fair and reasonable prices having regard to the market conditions and the marketing strategy of the Group.

Although the Group does not usually sell base engines, it sells gas engine parts and related products to both Weichai Westport and independent third party customers. We have reviewed 10 sets of sale invoice samples for gas engine parts and related products between the Group and its customers, including Weichai Westport and independent third parties. We have noted that the sale prices of gas engine parts and related products payable by Weichai Westport to the Group under the sampled transactions were generally no less favourable to the Group than those offered by the Group to independent third party customers having regard to the quantity and product type under the transactions.

We have noted from the 2011 Annual Report that the Group's trading terms with its customers were mainly on credit except for new customers, where payment in advance or cash on delivery was normally required. The credit period granted by the Group to its customers was generally one month, extending up to six months for major customers. As indicated in the 2011 Annual Report, the Group had audited accounts receivable of approximately RMB4,738 million as at 31 December 2011, of which about 71% aged within three months and about 12% aged between three to six months. According to the Company's 2012 interim report, the Group had audited accounts receivable of approximately RMB5,573 million as at 30 June 2012, of which about 66% aged within three months and about 19% aged within three to six months. Based on such accounts receivable aging analysis, we consider that the arrangement of settlement of the transaction amount on a monthly basis under the Weichai Westport Supply Agreement is no less favorable to the Group than the credit terms granted by the Group to its customers in general.

In summary, (i) the sale of base engines, gas engine parts and related products by the Group to Weichai Westport is conducted in the ordinary and usual course of business of the Group; (ii) the prices of the goods in the Non-exempt Continuing Connected Transactions shall be market prices or, in the absence of which, prices determined according to the principle of fairness and reasonableness; and (iii) the arrangement of settlement of the transaction amount on a monthly basis under the Weichai Westport Supply Agreement is no less favorable to the Group than the credit terms granted by the Group to its customers in general. On this basis, we are of the opinion that the Weichai Westport Supply Agreement governing the supply of base engines, gas engine parts and related products by the Group to Weichai Westport is in the interests of the Company and the Shareholders as a whole, and its terms are normal commercial terms and are fair and reasonable.

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(ii) Rationale for determining the New Caps

The table below sets out (i) the actual transaction amounts involved in the supply of base engines, gas engine parts and related products by the Group to Weichai Westport for the years ended 31 December 2010 and 31 December 2011, and the 11 months ended 30 November 2012; and (ii) the proposed New Caps for the Continuing Connected Transactions for the period from 25 December 2012 to 31 December 2012, and the two years ending 31 December 2014.

	<b>Supply of base engines, gas engine parts and related products by the Group to Weichai Westport (RMB'000)</b>	<b>Increase as compared to the preceding financial year (%)</b>
<b>Actual transaction amounts:</b>		
2010	110,417	N/A
2011	292,185	164.6
11 months up to 30 November 2012 <i>Note 1</i>	709,353	164.8
<b>New Caps:</b>		
2012 (25 December – 31 December)	200,000	N/A
2013 <i>Note 2</i>	2,100,000	171.4
2014	2,800,000	33.3

*Notes:*

1. The percentage change is calculated on an annualized basis.
2. The percentage change is calculated by comparison with the transaction amount for the 11 months ended 30 November 2012 on an annualized basis.

As stated in the Letter from the Board, the orders in the 11 months ended 30 November 2012 for the Group's heavy-duty vehicles with gas engines and gas engines have increased substantially. Accordingly, the Company expects the transaction amount of base 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 2012 to be approximately RMB1,000 million, representing approximately a 242% increase from that for year 2011. The Company has proposed New Caps for the above Non-exempt Continuing Connected Transactions of RMB2,100 million and RMB2,800 million, respectively, for the two years ending 31 December 2013 and 31 December 2014. As stated in the Letter from the Board, such New Caps have been prepared by the Company primarily based on (i) the historical

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transaction amounts, (ii) the estimate of the volume of base engines, gas engine parts and related products required by Weichai Westport; (iii) the average unit prices of the relevant goods, (iv) the expected transaction amounts for the two years ending 31 December 2014; and (v) the assumption that the overall sales of the relevant goods by the Group to Weichai Westport on an annual basis will increase approximately 110% and 33% for each of the years ending 31 December 2013 and 31 December 2014, respectively, taking into account all the aforesaid factors.

As indicated in the table above, the transaction amount in relation to the supply of base engines, gas engine parts and related products by the Group to Weichai Westport in 2011 was approximately RMB292.2 million, representing an increase of approximately 165% from the transaction amount of approximately RMB110.4 million for 2010. The transaction amount during the 11 months ended 30 November 2012 was approximately RMB709.4 million, representing a further increase of approximately 165% from that for 2011 on an annualized basis.

The proposed New Cap of RMB2,100 million for 2013 represents an increase of about 171% over the actual transaction amount for the 11 months ended 30 November 2012 on an annualized basis. The proposed New Cap of RMB2,800 million for 2014 represents an annual growth of approximately 33% over the proposed New Cap for the preceding year.

We have reviewed and discussed with the Group the bases and assumptions adopted by it in determining the proposed New Caps for the Non-exempt Continuing Connected Transactions in this sub-section, and have noted the following in particular:

- In line with the expected improvement in the market conditions as discussed in our analysis in the section headed “Overview of China’s economy and the heavy-duty trucks market in China” above, it is expected that the demand for heavy-duty vehicles in China will increase in the coming years.
- The Chinese government has demonstrated its determination to promote low-carbon development and address climate change. Before the Copenhagen Climate Change Conference was held in 2009, the Chinese government had announced the objective of reducing greenhouse gas emissions per unit of GDP by 40%-50% by 2020 as compared to that in 2005. In its “Work Plan for Greenhouse Gas Emission Control during the 12th Five-Year Plan Period” issued by the State Council in January 2012, the Chinese government has set its new goals of reducing carbon emissions in the next few years and called for programs that aim to promote a low-carbon economy. Among other things, the plan aims to reduce China’s carbon dioxide emission per unit of GDP by 17% by 2015 compared with 2010 levels, and reduce energy consumption per unit of GDP by 16% during the same period. With the implementation of China’s policies on environmental protection and



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energy conservation, the demand for alternative-fuel vehicles providing lower exhaust emissions, such as gas-powered vehicles, will increase. On this basis, we consider it reasonable for the Group to expect favourable growth in demand for its gas-powered heavy-duty vehicles and gas engines. In order to meet such growth in demand, the sale of base engines, gas engine parts and related products by the Group to Weichai Westport for modification, processing and assembly into gas engines will also increase.

- As mentioned in the section headed “Reasons for the Continuing Connected Transactions” above, Weichai Westport announced in March 2012 the introduction of China’s first natural gas engine featuring HPDI technology. The newly developed HPDI natural gas engine, based on the Group’s WP12 engine platform and featuring WII’s HPDI technology, delivers the same power, torque and performance of diesel engine, but allows the replacement of up to 95% of diesel fuel with cleaner burning and less expensive natural gas. By using the HPDI gas engines, it is expected that fleet customers can achieve significant economic benefits as a result of the lower price of natural gas than that of diesel fuel and fuel-saving properties of HPDI gas engine.

According to an announcement issued by the Ministry of Environmental Protection on 5 December 2012, starting from 1 January 2013, all gasoline-powered vehicles manufactured in, exported to or sold in China are required to comply with the new China V emission standards. As advised by the Group, Weichai Westport’s HPDI gas engine complies with China V emission standards, and is currently undergoing road testing on heavy-duty vehicle with an OEM customer, which is an associate of the Group. It is expected that the HPDI gas engine developed by Weichai Westport will become an economic and environmental transportation solution to address China’s environmental protection policy. The introduction of products installed with the new HPDI gas engines is expected to contribute to the growth in the transactions between the Group and Weichai Westport in 2013.

- According to the “2012 Forum on the Development of Natural Gas Automobiles in China”, the number of natural gas vehicles in China has increased from less than 10,000 units in 2000 to about one million units by the end of 2011, representing an annual compound growth of over 50%. It is expected that the annual compound growth in the ownership of natural gas vehicles in China will reach 27% in the next five years, with more significant growth rate to be seen in the heavy-duty vehicles sector. As the Group is one of the leading suppliers of heavy-duty engines and heavy-duty vehicles, the demand for the Group’s heavy-duty vehicles with gas engines and gas engines is expected to increase at a rate no less than the industry average. In order to meet such growth in demand, the sale of base engines, gas engine parts and

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related products by the Group to Weichai Westport for modification, processing and assembly into gas engines will also increase.

- As indicated in the table above, the actual transaction amount involved in the supply of base engines, gas engine parts and related products by the Group to Weichai Westport increased by approximately 165% in 2011 from that in 2010, and a further 165% in the 11 months ended 30 November 2012 on an annualized basis. The proposed New Cap of RMB2,100 million for 2013 represents an increase of approximately 171% from the actual transaction amount in the 11 months ended 30 November 2012 on an annualized basis. If we consider the Company's estimated amount of such transactions of RMB1,000 million for the full year 2012, the proposed New Cap of RMB2,100 million for 2012 would represent an increase of 110%.

As gas-powered vehicles have just started to gain popularity in China in recent years, the future growth in demand for gas engines, calculated on a relatively low base, would show a more significant rate of increase.

- We have reviewed the Company's estimates of the quantity and average unit prices of base engines and the estimated transaction amounts of gas engine parts and related products to be sold by the Group to Weichai Westport for each of the two years ending 31 December 2014. We have also reviewed the actual transaction amounts for the supply of the relevant goods by the Group to Weichai Westport, including the quantity and average unit prices of base engines, for the two years ended 31 December 2011 and the 11 months ended 30 November 2012. We consider that the Company's estimates in determining the New Caps for years 2013 and 2014 are consistent with its overall sales plan for gas engines and are also consistent with the historical prices of the relevant goods.
- Based on the historical growth rates in the amounts of such transactions of approximately 165% per annum, we consider that the growth rate as represented by the Company's proposed New Cap of RMB2,100 million for the Continuing Connected Transactions in this sub-section for 2013 is reasonable. Taking into account the significant growth expected in 2013, it is reasonable to expect the growth rate of the amount of the Group's sale transactions to Weichai Westport to moderate in 2014. As the annual compound growth in the ownership of natural gas vehicles in China is expected to reach 27% in the next five years and the Group is one of the largest suppliers of heavy-duty engines and heavy-duty vehicles in China, we consider that the relatively moderate annual growth rate of approximately 33% estimated by the Company in determining the New Cap for 2014 is reasonable.



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In summary, on the basis that (i) the economic conditions and the heavy-duty vehicles market in China are expected to improve along with the construction and infrastructure activities spurred by the government's fiscal and monetary policies; (ii) the estimated growth rates adopted by the Group in determining the New Caps are substantially in line with the average growth rates in the historical transaction amounts of supply of base engines, gas engine parts and related products by the Group to Weichai Westport over the past few years; (iii) the demand for gas-powered vehicles in China is expected to increase with the implementation of China's environmental protection and energy conservation policies; and (iv) new products using the HPDI gas engines developed by Weichai Westport, which comply with China V emission standards, will be launched; we are of the view that the bases and assumptions adopted by the Company in determining the New Caps as discussed above are reasonable. We also consider that the proposed New Caps for the supply of base engines, gas engine parts and related products by the Group to Weichai Westport for the two years ending 31 December 2013 and 2014 of RMB2,100 million and RMB2,800 million, respectively, are fair and reasonable.

*(b) Purchase of gas engines, gas engine parts and related products by the Group from Weichai Westport*

*(i) Principal terms of the Weichai Westport Purchase Agreement*

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.

Pursuant to the Weichai Westport Purchase Agreement, the parties shall enter into specific contracts, orders and/or confirmation documents which set out the specific terms including, as appropriate, the particulars of goods, quantity, price, delivery and inspection methods, settlement method, etc. and such terms must be based on the principle of fairness and reasonableness and must not contravene the terms of the Weichai Westport Purchase Agreement. Payment for the goods shall be made by cash on normal commercial settlement terms.

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. Weichai Westport is held as to 35% by WII which has an extensive intellectual property portfolio in relation to natural gas injection/engine/combustion technology, and has over 400 patent applications filed, of which more than 290 patents have been issued worldwide. As advised by the Group, the gas engines purchased by the Group from Weichai Westport under the Weichai Westport Purchase Agreement include primarily new gas engines as well as some old gas engines. The new gas engines are produced by Weichai Westport using the Group's base engines, while the old gas engines are sold to the

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Group for restoration and/or modification into base engines which may be sold to Weichai Westport. The gas engine parts and related products purchased by the Group under the Weichai Westport Purchase Agreement are required for after-sales servicing and maintenance of the gas engines purchased from Weichai Westport. As the gas engines and related products purchased by the Group under the Weichai Westport Purchase Agreement are quite unique in nature and the production of which requires certain technology and/or intellectual property possessed by Weichai Westport, there are no transactions between the Group and independent third parties for goods that are comparable to those under the Weichai Westport Purchase Agreement. However, as advised by the Group, Weichai Westport sells similar gas engines to its other customers. We have reviewed 10 sets of sale invoice samples for gas engines between Weichai Westport and its customers, including the Company. We have noted that the purchase prices of gas engines payable by the Company to Weichai Westport under the sampled transactions were generally no less favourable to the Company than those offered by Weichai Westport to its other customers having regard to the quantity and product type under the transactions.

Under the Weichai Westport Purchase Agreement, the prices of the goods are market prices, and/or prices agreed according to the principle of fairness and reasonableness. We have discussed with the Group which has confirmed that in determining the purchase prices under the Weichai Westport Purchase Agreement, the Group will consider the overall market condition, the cost of base engines and/or related parts to Weichai Westport, the cost of other materials and processing, and the value or price that can be realized by the Group from onward sale of the gas engines to customers. As the goods under the Weichai Westport Purchase Agreement are quite unique in nature and the prices payable by the Company in the sampled transactions were no less favourable to the Company than those payable by Weichai Westport's other customers, we consider that the price determination process of the Group as described above demonstrates a normal commercial approach and should result in fair and reasonable prices having regard to the market conditions and the marketing strategy of the Group.

We have noted from the 2011 Annual Report that the Group's trade payables had an average term of three months. As indicated in the 2011 Annual Report, the Group had audited trade payables of approximately RMB13,079 million as at 31 December 2011, of which about 93% aged within three months. According to the Company's 2012 interim report, the Group had audited trade payables of approximately RMB11,353 million as at 30 June 2012, of which about 90% aged within three months. Based on such accounts payable aging analysis, we consider that the arrangement for settlement of the transaction amount on a monthly basis under the Weichai Westport Purchase Agreement is in line with the Group's normal commercial terms. Such settlement arrangement is also the same as that granted by the Group to Weichai Westport under the Weichai Westport Supply Agreement described in sub-section 3(a)(i) above.

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In summary, (i) the purchase of gas engines, gas engine parts and related products by the Group from Weichai Westport is conducted in the ordinary and usual course of business of the Group; (ii) the prices of the goods under these Continuing Connected Transactions shall be market prices or, in the absence of which, prices determined according to the principle of fairness and reasonableness; and (iii) the settlement arrangement for the transaction amount on a monthly basis under the Weichai Westport Purchase Agreement is in line with the credit terms obtained by the Group from its suppliers in general and is also the same as that granted by the Group to Weichai Westport under the Weichai Westport Supply Agreement. On this basis, we are of the opinion that the Weichai Westport Purchase Agreement governing the purchase of gas engines, gas engine parts and related products by the Group from Weichai Westport is in the interests of the Company and the Shareholders as a whole, and its terms are normal commercial terms and are fair and reasonable.

(ii) Rationale for determining the New Caps

The table below sets out (i) the actual transaction amounts involved in the purchase of gas engines, gas engine parts and related products by the Group from Weichai Westport for the years ended 31 December 2010 and 31 December 2011, and the 11 months ended 30 November 2012; and (ii) the proposed New Caps for the Continuing Connected Transactions for the period from 25 December 2012 to 31 December 2012, and the two years ending 31 December 2014.

	<b>Purchase of gas engines, gas engine parts and related products by the Group from Weichai Westport (RMB'000)</b>	<b>Increase as compared to the preceding financial year (%)</b>
<b>Actual transaction amounts:</b>		
2010	276,093	N/A
2011	629,514	128.0
11 months up to 30 November 2012 <sup>Note 1</sup>	1,464,940	153.9
<b>New Caps:</b>		
2012	400,000	N/A
2013 <sup>Note 2</sup>	4,200,000	162.8
2014	5,500,000	31.0

Notes:

1. The percentage change is calculated on an annualized basis.

<p style="text-align: center;"><b>LETTER FROM THE INDEPENDENT FINANCIAL ADVISER ON THE NON-EXEMPT CONTINUING CONNECTED TRANSACTIONS</b></p>
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2. The percentage change is calculated by comparison with the transaction amount for the 11 months ended 30 November 2012 on an annualized basis.

As stated in the Letter from the Board, the orders in the 11 months ended 30 November 2012 for the Group's heavy-duty vehicles with gas engines and gas engines have increased substantially. Accordingly, the Company expects the transaction amount of 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 2012 to be approximately RMB2,000 million, representing approximately a 218% increase from that for year 2011. The Company has proposed New Caps for the above Non-exempt Continuing Connected Transactions of RMB4,200 million and RMB5,500 million, respectively, for the two years ending 31 December 2013 and 31 December 2014. As stated in the Letter from the Board, such 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 the relevant goods, (iv) the expected transaction amounts for the two years ending 31 December 2014; and (v) the assumption that the overall purchase of the relevant goods by the Group from Weichai Westport on an annual basis will increase approximately 110% and 31% for each of the years ending 31 December 2013 and 31 December 2014, respectively, taking into account all the aforesaid factors.

As indicated in the table above, the transaction amount in relation to the purchase of base engines, gas engine parts and related products by the Group to Weichai Westport in 2011 was approximately RMB629.5 million, representing an increase of approximately 128% from the transaction amount of approximately RMB276.1 million for 2010. The transaction amount during the 11 months ended 30 November 2012 was approximately RMB1,464.9 million, representing a further increase of approximately 154% from that for 2011 on an annualized basis.

The proposed New Cap of RMB4,200 million for 2013 represents an increase of about 163% over the actual transaction amount for the 11 months ended 30 November 2012 on an annualized basis. The proposed New Cap of RMB5,500 million for 2014 represents an annual growth of approximately 31% over the proposed New Cap for the preceding year.

We have reviewed and discussed with the Group the bases and assumptions adopted by it in determining the proposed New Caps for the Non-exempt Continuing Connected Transactions in this sub-section, and have noted the following in particular:

- In line with the expected improvement in the market conditions as discussed in our analysis in the section headed "Overview of China's economy and the heavy-duty trucks market in China" above, it is expected that the demand for heavy-duty vehicles in China will increase in the coming years.

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- The Chinese government has demonstrated its determination to promote low-carbon development and address climate change. Before the Copenhagen Climate Change Conference was held in 2009, the Chinese government had announced the objective of reducing greenhouse gas emissions per unit of GDP by 40%-50% by 2020 as compared to that in 2005. In its “Work Plan for Greenhouse Gas Emission Control during the 12th Five-Year Plan Period” issued by the State Council in January 2012, the Chinese government has set its new goals of reducing carbon emissions in the next few years and called for programs that aim to promote a low-carbon economy. Among other things, the plan aims to reduce China’s carbon dioxide emission per unit of GDP by 17% by 2015 compared with 2010 levels, and reduce energy consumption per unit of GDP by 16% during the same period. With the implementation of China’s policies on environmental protection and energy conservation, the demand for alternative-fuel vehicles providing lower exhaust emissions, such as gas-powered vehicles, will increase. On this basis, we consider it reasonable for the Group to expect favourable growth in demand for its heavy-duty vehicles with gas engines and gas engines. In order to meet such growth in demand, the purchase of gas engines, gas engine parts and related products by the Group from Weichai Westport will also increase.
- The Group has adopted a new sales model during the second half of 2012 under which the gas engines produced by Weichai Westport using the Group’s base engines as the engine platform are bought back by the Group for onward sale to its customers, instead of selling by Weichai Westport. The new sales model is a part of the Group’s marketing strategy which is believed to build a better brand awareness for the Group. As a result of the new sales model, the transaction amount for the purchase of gas engines, gas engine parts and related products by the Group from Weichai Westport will further increase.
- As mentioned in the section headed “Reasons for the Continuing Connected Transactions” above, Weichai Westport announced in March 2012 the introduction of China’s first natural gas engine featuring HPDI technology. The newly developed HPDI natural gas engine, based on the Group’s WP12 engine platform and featuring WII’s HPDI technology, delivers the same power, torque and performance of diesel engine, but allows the replacement of up to 95% of diesel fuel with cleaner burning and less expensive natural gas. By using the HPDI gas engines, it is expected that fleet customers can achieve significant economic benefits as a result of the lower price of natural gas than that of diesel fuel and fuel-saving properties of HPDI gas engine.

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According to an announcement issued by the Ministry of Environmental Protection on 5 December 2012, starting from 1 January 2013, all gasoline-powered vehicles manufactured in, exported to or sold in China will be required to comply with the new China V emission standards. As advised by the Group, Weichai Westport's HPDI gas engine complies with China V emission standards, and is currently undergoing road testing on heavy-duty vehicle with an OEM customer, which is an associate of the Group. It is expected that the HPDI gas engine developed by Weichai Westport will become an economic and environmental transportation solution to address China's environmental protection policy. The introduction of products installed with the new HPDI gas engines is expected to contribute to the growth in the purchase of gas engines and related products from Weichai Westport in 2013.

- According to the "2012 Forum on the Development of Natural Gas Automobiles in China", the number of natural gas vehicles in China has increased from less than 10,000 units in 2000 to about one million units by the end of 2011, representing an annual compound growth of over 50%. It is expected that the annual compound growth in the ownership of natural gas vehicles in China will reach 27% in the next five years, with more significant growth to be seen in the heavy-duty vehicles sector. As the Group is one of the leading suppliers of heavy-duty engines and heavy-duty vehicles, the demand for the Group's heavy-duty vehicles with gas engines and gas engines is expected to increase at a rate no less than the industry average. In order to meet such growth in demand, the purchase of gas engines, gas engine parts and related products by the Group from Weichai Westport will also increase.
- As indicated in the table above, the actual transaction amount involved in the purchase of gas engines, gas engine parts and related products by the Group from Weichai Westport increased by approximately 128% in 2011 from that in 2010, and a further 154% in the 11 months ended 30 November 2012 on an annualized basis. The proposed New Cap of RMB4,200 million for 2013 represents an increase of approximately 163% from the actual transaction amount in the 11 months ended 30 November 2012 on an annualized basis. If we consider the Company's estimated amount of such transactions of RMB2,000 million for the full year 2012, the proposed New Cap of RMB4,200 million for 2012 would represent an increase of 110%.

As gas-powered vehicles have just started to gain popularity in China in recent years, the future growth in demand for gas engines, calculated on a relatively low base, would show a more significant rate of increase.



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- We have reviewed the Company's estimates of the quantity and average unit prices of gas engines and the estimated transaction amounts of gas engine parts and related products to be purchased by the Group from Weichai Westport for each of the two years ending 31 December 2014. We have also reviewed the actual transaction amounts for the purchase of the relevant goods by the Group from Weichai Westport, including the quantity and average unit prices of gas engines, for the two years ended 31 December 2011 and the 11 months ended 30 November 2012. We consider that the Company's estimates in determining the New Caps for years 2013 and 2014 are consistent with its overall sales plan for gas engines and are also consistent with the historical prices of the relevant goods.

Based on the average historical growth rate in the amounts of such transactions of approximately 141% per annum and taking into account the additional transaction amount under the Group's new sales model, we consider that the growth rate as represented by the Company's proposed New Cap of RMB4,200 million for the Continuing Connected Transactions in this sub-section for 2013 is reasonable. Taking into account the significant growth expected in 2013, it is reasonable to expect the growth rate of the amount of the Group's purchase transactions from Weichai Westport to moderate in 2014. As the annual compound growth in the ownership of natural gas vehicles in China is expected to reach 27% in the next five years and the Group is one of the largest suppliers of heavy-duty engines and heavy-duty vehicles in China, we consider that the relatively moderate annual growth rate of approximately 31% estimated by the Company in determining the New Cap for 2014 is reasonable.

In summary, on the basis that (i) the economic conditions and the heavy-duty vehicles market in China are expected to improve along with the construction and infrastructure activities spurred by the government's fiscal and monetary policies; (ii) taking into account the additional transaction amount under the Group's new sales model, the estimated growth rates adopted by the Group in determining the New Caps are substantially in line with the average growth rates in the historical transaction amounts of purchase of gas engines, gas engine parts and related products by the Group from Weichai Westport over the past few years; (iii) the demand for gas-powered vehicles in China is expected to increase with the implementation of China's environmental protection and energy conservation policies; and (iv) new products using the HPDI gas engines developed by Weichai Westport, which comply with China V emission standards, will be launched; we are of the view that the bases and assumptions adopted by the Company in determining the New Caps as discussed above are reasonable. We also consider that the proposed New Caps for the purchase of gas engines, gas engine parts and related products by the Group from Weichai Westport for the two years ending 31 December 2013 and 2014 of RMB4,200 million and RMB5,500 million, respectively, are fair and reasonable.

<p style="text-align: center;"><b>LETTER FROM THE INDEPENDENT FINANCIAL ADVISER ON THE NON-EXEMPT CONTINUING CONNECTED TRANSACTIONS</b></p>
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**4. Annual review of the Non-exempt Continuing Connected Transactions**

Pursuant to the Hong Kong Listing Rules, the Company must comply with certain review, reporting and disclosure requirements in respect of the Non-exempt Continuing Connected Transactions which include, in particular, the following:

- (a) each year the auditors of the Company must provide a letter to the Board (with a copy of it provided to the Stock Exchange at least 10 business days prior to the bulk printing of the Company's annual report), confirming that the Non-exempt Continuing Connected Transactions:
  - (i) have received the approval of the Board;
  - (ii) have been conducted in accordance with the pricing policies of the Group;
  - (iii) have been entered into in accordance with the relevant agreements governing the Non-exempt Continuing Connected Transactions; and
  - (iv) have not exceeded the New Caps as disclosed;
- (b) the Board must state in the annual report of the Company whether its auditors have confirmed the matters as referred to in paragraph (a) above; and
- (c) upon any variation or renewal of the agreements governing the Non-exempt Continuing Connected Transactions, the Company will comply in full with all applicable reporting, annual review, disclosure and independent shareholders' approval requirements of Chapter 14A of the Hong Kong Listing Rules in respect of all continuing connected transactions effected after such variation or renewal.

Given the above review and reporting requirements, we are of the view that there are appropriate measures in place to govern the conduct of the Non-exempt Continuing Connected Transactions and safeguard the interests of the Independent Shareholders.



<p style="text-align: center;"><b>LETTER FROM THE INDEPENDENT FINANCIAL ADVISER ON THE NON-EXEMPT CONTINUING CONNECTED TRANSACTIONS</b></p>
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**RECOMMENDATION**

In formulating our recommendation to the Independent Board Committee and the Independent Shareholders in respect of the Framework Agreements governing the Non-exempt Continuing Connected Transactions and the relevant New Caps, we have considered the above principal factors and reasons, in particular, the following:

- The demand for gas engines is growing as gas-powered vehicle is one of the solutions to address the growing concerns for environmental protection. It is in the interests of the Company and the Shareholders as a whole to conduct the Continuing Connected Transactions with Weichai Westport as the Group can capitalize on the research and development capabilities and intellectual property of WII in relation to gas engines through Weichai Westport, thereby extending the Group's product offerings with the addition of various gas-powered versions of heavy-duty vehicles and gas-powered engines and construction machineries, etc.
- The Non-exempt Continuing Connected Transactions are conducted in the ordinary and usual course of business of the Group and on normal commercial terms or terms which are determined according to the principle of fairness and reasonableness.
- The value of, and the bases for determining, the relevant New Caps are reasonable, details of which are set out in the relevant sub-sections headed "Rationale for determining the New Caps".

Based on the above consideration, we are of the opinion that the Non-exempt Continuing Connected Transactions are conducted in the ordinary and usual course of business of the Group, the Framework Agreements governing the Continuing Connected Transactions are in the interests of the Company and the Shareholders as a whole, the terms of the Framework Agreements are normal commercial terms and are fair and reasonable, and the New Caps for the two years ending 31 December 2013 and 2014 are fair and reasonable. Accordingly, we would advise the Independent Board Committee and the Independent Shareholders that the Independent Shareholders should vote in favour of the ordinary resolutions to approve the Framework Agreements and the New Caps at the EGM.

Yours faithfully,  
For and on behalf of  
**Ceres Capital Limited**

**Frank Moy**  
*Managing Director*

**Jinny Mok**  
*Executive Director*

## 1. RESPONSIBILITY STATEMENT

This circular, for which the Directors collectively and individually accept full responsibility, includes particulars given in compliance with the Hong Kong 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 Hong Kong 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 Hong Kong 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:

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	16,512,000 (Note 1)	–	0.83%
Xu Xinyu	Beneficial owner	3,840,000 (Note 1)	–	0.19%
Sun Shaojun	Beneficial owner	3,840,000 (Note 1)	–	0.19%
Zhang Quan	Beneficial owner	3,840,000 (Note 1)	–	0.19%
Liu Huisheng	Beneficial owner	2,304,000 (Note 1)	–	0.12%
Yeung Sai Hong (Note 3)	Held by controlled corporation	63,168,000 (Note 2)	490,812	3.18%
Julius G. Kiss (Note 4)	Held by controlled corporation	41,280,000 (Note 2)	–	2.06%
Zhang Zhenhua (Note 5)	Interest held by spouse	25,300	–	0.001%

*Notes:*

1. 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.
2. These were previously foreign shares of the Company. The foreign 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 a currency other than Renminbi. These shares became “A” shares of the Company upon the “A” share listing of the Company on the Shenzhen Stock Exchange.
3. Yeung Sai Hong, a non-executive Director, was directly and indirectly interested in the issued share capital of Peterson Holdings Company Limited (“Peterson”), which in turn held 63,168,000 “A” shares in the Company. Yeung Sai Hong was also indirectly interested in the issued share capital of Master Hand Investments Limited, which in turn held 490,812 “H” shares in the Company.
4. Julius G. Kiss, a non-executive Director, was indirectly interested in the entire issued share capital of IVM Technical Consultants Wien Gesellschaft m.b.H. (“IVM”), which in turn held 41,280,000 “A” shares in the Company.
5. Zhang Zhenhua, an independent non-executive Director, was deemed to be interested in 25,300 “A” shares in the Company which were beneficially held by his wife, Ms. Wu Miaodi.
6. All the shareholding interests listed in the above table are “long” position.

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 of Hong Kong Limited) 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 (Note 2)	Beneficial owner	Long	140,198,500	22.23%	–	–	16.83%
Shandong Heavy Industry Group Co., Ltd. (Note 1) (Note 2)	Held by controlled corporation	Long	140,198,500	22.23%	–	–	16.83%
State-owned Assets Supervision and Administration Commission of Shandong Province ("Shandong SASAC") (Note 1) (Note 2)	Held by controlled corporation	Long	140,198,500	22.23%	–	–	16.83%
Brandes Investment Partners, LP	Investment manager	Long	–	–	78,578,612	18.99%	3.93%
Lazard Asset Management LLC	Investment manager	Long	–	–	63,120,156	12.99%	3.16%
JPMorgan Chase & Co.	Beneficial owner	Long	–	–	10,127,117	2.08%	0.51%
	Custodian – Corporation/ approved lending agent	Long	–	–	45,744,894	9.42%	2.28%
					<u>55,872,011</u>	<u>11.50%</u>	<u>2.79%</u>
	Beneficial owner	Short	–	–	4,803,887	0.99%	0.24%
Schroder Investment Management Limited	Investment manager	Long	–	–	38,851,199	7.99%	1.94%
The Capital Group Companies, Inc. (Note 3)	Interest of corporation controlled by the substantial shareholders	Long	–	–	27,669,400	6.84%	1.66%
Lazard Emerging Markets Equity Portfolio (Note 3)	Investment manager	Long	–	–	23,707,500	5.86%	1.42%

Name	Capacity	Long/ Short position	Number of A shares	Percentage of share capital comprising		Percentage of share capital comprising		Percentage of total issued share capital
				only A shares	Number of H shares	only H shares		
Barclays PLC	Person having a security interest in shares	Long	-	-	752,341	0.15%		0.04%
	Interest of corporation controlled by the substantial shareholder	Long	-	-	24,381,253	5.02%		1.22%
					25,133,594	5.17%		1.26%
	Interest of corporation controlled by the substantial shareholder	Short	-	-	24,742,678	5.09%		1.24%
Earnest Partners, LLC (Note 3)	Investment manager	Long	-	-	20,396,980	5.04%		1.22%

*Notes:*

1. State-owned Assets Supervision and Administration Commission of Shandong Province ("Shandong SASAC") held the entire share capital of Shandong Heavy Industry Group Co., Ltd., which in turn held the entire share capital of Weichai Group Holding Limited (formerly known as Weifang Diesel Engine Works).
2. The number of A shares held by Weichai Group Holdings Limited (and hence the deemed interest by Shandong Heavy Industry Group Co., Ltd. and Shandong SASAC) as shown above does not take into consideration the Company's two bonus issues of A shares on 6 December 2010 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.
3. The number of H shares reported above by the relevant substantial shareholder does not take into consideration the Company's bonus share issuance on 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.

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 Group
Tan Xuguang	Chairman	Chairman
Jiang Kui	Vice president	Director, general manager
Xu Xinyu	Director	–
Sun Shaojun	Director	–
Zhang Quan	Director	–
Liu Huisheng	Director	Deputy general manager

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.

### 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, none of the Directors was interested, directly or indirectly, in any assets which had since 30 June 2012, being 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) 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 30 June 2012, 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. Tan Xuguang 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 1.42% 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, whilst Shaanxi Automotive (and its associates) are also engaged in the manufacture and sale of, inter alia, heavy-duty vehicles/trucks and parts and components.

**4. MATERIAL ADVERSE CHANGE**

The Directors are not aware of any material adverse change in the financial or trading position of the Group since 30 June 2012, 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 opinions or advice which are contained in this circular:

<b>Name</b>	<b>Qualification</b>
Ceres Capital Limited	A licensed corporation under the SFO to carry on type 6 (advising on corporate finance) regulated activity

- (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 January 2013 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 January 2013 to 30 January 2013 (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 Framework Agreements.



## NOTICE OF THE EGM



**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)**

### **NOTICE OF EXTRAORDINARY GENERAL MEETING OF THE SHAREHOLDERS OF WEICHAI POWER CO., LTD.**

**NOTICE IS HEREBY GIVEN** that an extraordinary general meeting (the “EGM”) of Weichai Power Co., Ltd. (the “Company”) will be held at the Company’s conference room at 197, Section A, Fu Shou East Street, High Technology Development Zone, Weifang, Shandong Province, the People’s Republic of China (the “PRC”) on 5 March 2013 at 10:00 a.m. for the purpose of considering and, if thought fit, approving the matters set out below. Unless the context requires otherwise, terms defined in the circular to the shareholders of the Company (the “Shareholders”) dated 17 January 2013, of which this notice forms part (the “Circular”) shall have the same meanings when used herein.

#### **ORDINARY RESOLUTIONS**

To consider and, if thought fit, approve the following resolutions as ordinary resolutions:

1. “**THAT** the Weichai Westport Supply Agreement dated 25 December 2012 referred to in the section headed “II. Continuing Connected Transactions – 1. Supply of basic engines, gas engine parts and related products by the Company (and its subsidiaries) to Weichai Westport” in the “Letter from the Board” contained in the Circular and the relevant New Caps (as defined in the Circular) be and are hereby approved.”
2. “**THAT** the Weichai Westport Purchase Agreement dated 25 December 2012 referred to in the section headed “II. Continuing Connected Transactions – 2. Purchase of gas engines, gas engine parts and related products by the Company (and its subsidiaries) from Weichai Westport” in the “Letter from the Board” contained in the Circular and the relevant New Caps (as defined in the Circular) be and are hereby approved.”
3. “**THAT** the Weichai Westport Logistics Agreement dated 25 December 2012 referred to in the section headed “IV. The PRC Continuing Connected Transactions – 1. Provision of logistics services by Weichai Logistics to Weichai Westport” in the “Letter from the Board” contained in the Circular and the relevant new caps be and are hereby approved.”

## NOTICE OF THE EGM

4. “**THAT** the Weichai Westport Leasing Agreement dated 25 December 2012 referred to in the section headed “IV. The PRC Continuing Connected Transactions – 2. Leasing of factory buildings by the Company to Weichai Westport” in the “Letter from the Board” contained in the Circular and the relevant new caps be and are hereby approved.”

By Order of the Board of Directors  
**Weichai Power Co., Ltd.**  
**Hoe York Joo**  
*Company Secretary*

Hong Kong, 17 January 2013

*Notes:*

- (A) The Company will not process registration of transfers of H shares (being overseas listed foreign shares and ordinary shares) in the share capital of the Company with a Renminbi denominated par value of RMB1.00 each, which are subscribed and/or paid for in Hong Kong dollars and listed on The Stock Exchange of Hong Kong Limited (“H Shares”) from 2 February 2013 to 5 March 2013 (both days inclusive). Holders of H Shares of the Company whose names appear on the register of H Shares of the Company kept at Computershare Hong Kong Investor Services Limited at the close of business on Friday, 1 February 2013 are entitled to attend and vote at the EGM following completion of the registration procedures. To qualify for attendance and voting at the EGM documents on transfers of H Shares of the Company, accompanied by the relevant share certificates, must be lodged with the Company’s H-Share Registrar and Transfer Office, not later than 4:30 p.m. on 1 February 2013. The address of the Company’s H-Share Registrar and Transfer Office is as follows:

Computershare Hong Kong Investor Services Limited  
Shops 1712–16, 17th Floor, Hopewell Centre  
183 Queen’s Road East  
Wanchai  
Hong Kong

- (B) Holders of H Shares intending to attend the EGM should complete and return the reply slip for attending the EGM personally, by facsimile or by post to the Secretary to the Board of the Company 20 days before the EGM (i.e. on or before 13 February 2013). The contact details of the Secretary to the Board of the Company are as follows:

Securities Department  
197, Section A, Fu Shou East Street  
High Technology Industrial Development Zone  
Weifang  
Shandong Province  
The People’s Republic of China  
Postal Code: 261061  
Telephone No.: 86 (536) 229 7068  
Facsimile No.: 86 (536) 819 7073

- (C) Each holder of H Shares of the Company entitled to attend and vote at the EGM may, by completing the form of proxy of the Company, appoint one or more proxies to attend and vote at the EGM on his behalf. A proxy need not be a shareholder of the Company. With respect to any shareholder who has appointed more than one proxy, the proxy holders may only vote on a poll.

## NOTICE OF THE EGM

- (D) Holders of H Shares of the Company must use the form of proxy of the Company for appointing a proxy and the appointment must be in writing. The form of proxy must be signed by the relevant shareholder or by a person duly authorised by the relevant shareholder in writing (a “power of attorney”). If the forms of proxy is signed by the person authorised by the relevant shareholder as aforesaid, the relevant power of attorney and other relevant documents of authorisation (if any) must be notarised. If a corporate shareholder appoints a person other than its legal representative to attend the EGM on its behalf, the relevant form of proxy must be affixed with the company seal/chop of the corporate shareholder or duly signed by its director or any other person duly authorised by that corporate shareholder as required by the Articles of Association of the Company.
- (E) To be valid, the form of proxy and the relevant notarised power of attorney (if any) and other relevant documents of authorisation (if any) as mentioned in Note (D) above must be delivered to the Company’s H-Share Registrar and Transfer Office, Computershare Hong Kong Investor Services Limited (address: 17M Floor, Hopewell Centre, 183 Queen’s Road East, Wanchai, Hong Kong), not less than 24 hours before the time appointed for the EGM.
- (F) Each holder of A Shares of the Company who is entitled to attend and vote at the EGM may also, by completing the form of proxy of the Company, appoint one or more proxies to attend and vote at the EGM on his behalf. A proxy need not be a shareholder of the Company. Notes (C) and (D) above also apply to the holders of A Shares of the Company, except that, to be valid, the form of proxy and the relevant power of attorney (if any) and other relevant documents of authorisation (if any) must be delivered to the Secretary to the Board of the Company not less than 24 hours before the time appointed for the EGM. The address of the Secretary to the Board of the Company is stated in Note (B) above.
- (G) A shareholder or his proxy should produce proof of identity when attending the EGM. If a corporate shareholder’s legal representative or any other person authorised by the board of directors or other governing body of such corporate shareholder attends the EGM, such legal representative or other person shall produce his proof of identity, and proof of designation as legal representative and the valid resolution or authorisation document of the board of directors or other governing body of such corporate shareholder (as the case may be) to prove the identity and authorisation of that legal representative or other person.
- (H) Any proposal to appoint any person to the office of director of the Company at the EGM shall be given in writing and, notice in writing by that person of his consent to be elected as director shall be, lodged at the registered office of the Company at 197, Section A, Fu Shou East Street, High Technology Industrial Development Zone, Weifang, Shandong Province, the People’s Republic of China. The period for lodgement of such notices shall commence on (and include) the day after the date of this notice of the EGM and end on (and exclude) the date that is seven (7) days before the date of the EGM.
- (I) The EGM is expected to last for not more than half a day. Shareholders who attend the EGM shall bear their own travelling and accommodation expenses.