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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)**

**(1) NON-EXEMPT CONTINUING CONNECTED TRANSACTIONS  
(2) PROPOSED AMENDMENTS TO ARTICLES OF ASSOCIATION**

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 24 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 Supplemental 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.

7 January 2015

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## DEFINITIONS

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

“0.1% Threshold”	the thresholds referred to in Rule 14A.76(1) of the Hong Kong Listing Rules
“5% Threshold”	the thresholds referred to in Rule 14A.76(2) 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”	the articles of association of the Company
“Board”	the board of Directors
“Company”	潍柴动力股份有限公司 (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. The Continuing Connected Transactions” in this circular
“Director(s)”	the director(s) of the Company
“EGM”	the extraordinary general meeting of the Company to be held on 27 February 2015 to consider and, if thought fit, approve the Supplemental Agreements in respect of the Non-exempt Continuing Connected Transactions and the PRC Continuing Connected Transactions and the amendments to the Articles
“EGM Notice”	the notice convening the EGM dated 7 January 2015 contained in this circular
“Existing Cap(s)”	the existing cap(s) for the Continuing Connected Transactions set out in the section headed “II. The Continuing Connected Transactions” in this circular
“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. Loh Yih, Mr. Chu, Howard Ho Hwa, Mr. Zhang Zhenhua, Mr. Zhang Zhong, Mr. Wang Gongyong and Mr. Ning Xiangdong, 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”	2 January 2015
“New Cap(s)”	as defined in the section headed “II. The 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, the announcement requirement, the annual review requirements under the Hong Kong Listing Rules and approval from the Independent Shareholders at the EGM will be required
“PRC”	the People’s Republic of China
“PRC Continuing Connected Transactions”	has the meaning ascribed to it under the section headed “IV. The PRC Continuing Connected Transactions” in this circular

## DEFINITIONS

“PRC Supplemental Agreements”	the supplemental agreements in respect of the PRC Continuing Connected Transactions
“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 Shenzhen Stock Exchange
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Supplemental Agreements”	the supplemental agreements relating to the Continuing Connected Transactions entered into between the Group and the relevant connected persons as more particularly set out in the section headed “II. The Continuing Connected Transactions” in this circular and “Supplemental Agreement” means any of them
“Weichai Freshen Air”	濰柴動力空氣淨化科技有限公司 (Weichai Power Freshen Air Technology Co., Ltd.), a company established in the PRC and a wholly owned subsidiary of the Company
“Weichai Holdings”	濰柴控股集團有限公司 (Weichai Group Holdings Limited) (formerly known as 濰坊柴油機廠 (Weifang Diesel Engine Works)), a legal person established in the PRC, a substantial shareholder of the Company, and a connected person of the Company
“Weichai 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

## DEFINITIONS

“Weichai Westport”	濰柴西港新能源動力有限公司 (formerly known as “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 Purchase Agreement”	has the meaning ascribed to it under the section headed “II.2 Purchase of gas engines, gas engine parts, labour services and related products and services by the Company (and its subsidiaries and/or associates) from Weichai Westport” in this circular
“Weichai Westport Supply Agreement”	has the meaning ascribed to it under the section headed “II.1 Supply of base engines, gas engine parts, utility and labour services, technology development services and related products and services by the Company (and its subsidiaries and/or associates) 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.*



**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 and Chief Executive Officer*)  
Xu Xinyu  
Li Dakai  
Fang Hongwei  
Sun Shaojun  
Zhang Quan

*Non-executive Directors:*

Wang Yuepu  
Yeung Sai Hong  
Julius G. Kiss  
Han Xiaoqun  
Jiang Kui  
Gordon Riske

*Independent Non-executive Directors:*

Loh Yih  
Chu, Howard Ho Hwa  
Zhang Zhenhua  
Zhang Zhong  
Wang Gongyong  
Ning Xiangdong

*Supervisors:*

Sun Chengping  
Lu Wenwu  
Jiang Jianfang

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

7 January 2015

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

Dear Sir or Madam,

**(1) NON-EXEMPT CONTINUING CONNECTED TRANSACTIONS**  
**(2) PROPOSED AMENDMENTS TO ARTICLES OF ASSOCIATION**

**I. INTRODUCTION**

It was announced by the Board on 8 December 2014 that, *inter alia*, on 8 December 2014, the Company entered into the Supplemental Agreements in respect of the Continuing Connected

## LETTER FROM THE BOARD

Transactions. This circular gives you further information in relation to 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; and contain details in respect of the proposed amendments to the Articles.

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

## II. THE CONTINUING CONNECTED TRANSACTIONS

The Continuing Connected Transactions include the following:

Name of connected person	Name of Group Company	Connected person's relationship with the Group	Nature of the connected transaction with the Group
Weichai Westport	The Company, Weichai Resources, Weichai Reproduction and Weichai Freshen Air (and/or other associates of the Company) (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 base engines, gas engine parts, utility and labour services, technology development services and related products and services by the Company (and its subsidiaries and/or associates) to Weichai Westport</p> <p>(b) Purchase of gas engines, gas engine parts, labour services and related products and services by the Company (and its subsidiaries and/or associates) from Weichai Westport</p>

*Note:*

1. Weichai Resources, Weichai Reproduction and Weichai Freshen Air 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**

		<b>Proposed New Caps</b>		
		<b>For the year ending 31 December 2015 RMB</b>	<b>For the year ending 31 December 2016 RMB</b>	<b>For the year ending 31 December 2017 RMB</b>
(1)	Supply of base engines, gas engine parts, utility and labour services, technology development services and related products and services by the Company (and its subsidiaries and/or associates) to Weichai Westport	3,100,000,000 <sup>#</sup>	3,500,000,000 <sup>#</sup>	3,900,000,000 <sup>#</sup>
(2)	Purchase of gas engines, gas engine parts, labour services and related products and services by the Company (and its subsidiaries and/or associates) from Weichai Westport	5,300,000,000 <sup>#</sup>	5,600,000,000 <sup>#</sup>	6,000,000,000 <sup>#</sup>

*Notes:*

- 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.

**Details of the Continuing Connected Transactions and the Supplemental 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 diesel engines, diesel engine accessories and working parts, components of diesel engines and dedicated diesel oil.

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

## LETTER FROM THE BOARD

Weichai Freshen Air is a wholly owned subsidiary of the Company and is principally engaged in the research, design, sale and repair of air purification products, consultation in respect of transfer of air purification technology, import and export trade of goods and technology permitted by the State.

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 and relevant parts and components, modification of gas engines, business consultation and services. 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.

1. *Supply of base engines, gas engine parts, utility and labour services, technology development services and related products and services by the Company (and its subsidiaries and/or associates) to Weichai Westport*

Agreement: Supplemental Agreement to the framework agreement in relation to the supply of base engines, gas engine parts and related products by the Company (and its subsidiaries and/or associates) to Weichai Westport (the “**Weichai Westport Supply Agreement**”) dated 25 December 2012

Date: 8 December 2014

Parties:

1. (a) The Company  
(b) Weichai Resources  
(c) Weichai Reproduction  
(d) Weichai Freshen Air; and
2. Weichai Westport

Term: 1 January 2015 to 31 December 2017

Other terms and details:

Pursuant to the Weichai Westport Supply Agreement, each of the Company, Weichai Resources and Weichai Reproduction has supplied 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. This Continuing Connected Transaction has been conducted on normal commercial terms and terms no less favourable to the Company than those available to the Company from independent third parties.

Pursuant to this Supplemental Agreement, each of the Company, Weichai Resources, Weichai Reproduction and Weichai Freshen Air (and/or other associates of the Company) shall supply certain base engines, gas engine parts, utility and labour

## LETTER FROM THE BOARD

services, technology development services and related products and services to Weichai Westport, on the same terms and settled on a monthly basis for a term from 1 January 2015 to 31 December 2017, upon the expiry of which the parties may extend the term for three years on a mutually agreed basis. Save as set out herein, all other terms of the Weichai Westport Supply Agreement remain unchanged. The sale price of the said products and services is determined according to the following mechanism: Through market analysis of specific products by the market management department of the Company on a quarterly basis in general, a proposal on the price, which is formulated taking into account an analysis of a number of factors (including the prices of at least one to two relevant products in the market in general, market share, orders situation and performance of major competitors in the market), shall be submitted to the price management department of the Company for approval. The final price shall be determined based on arm's length negotiations between the parties. The price management department shall review the reasonableness of the price on a regular basis and make adjustments where necessary. The Directors are of the view that the abovementioned methods and procedures under the pricing policies can ensure that this Continuing Connected Transactions are conducted on normal commercial terms and not prejudicial to the interests of the Company and the minority Shareholders.

The table below summarises the Existing Caps for the three years ending 31 December 2014 for this Continuing Connected Transaction:

	<b>Year ended 31 December 2012</b>	<b>Year ended 31 December 2013</b>	<b>Year ending 31 December 2014</b>
Existing Cap	200,000,000*	2,100,000,000	2,800,000,000

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

The table below summarises the actual transaction amounts involved for each of the two years ended 31 December 2013 (audited) and the 10 months ended 31 October 2014 (unaudited) for this Continuing Connected Transaction:

	<b>Year ended 31 December 2012 RMB</b>	<b>Year ended 31 December 2013 RMB</b>	<b>10 months ended 31 October 2014 RMB</b>
Actual transaction amount	866,058,386	1,425,883,951	1,680,475,600

The Company estimates that the transaction amount of this Continuing Connected Transaction for the three years ending 31 December 2017 shall not exceed RMB3,100,000,000, RMB3,500,000,000 and RMB3,900,000,000 respectively, and the same have been accordingly set as the proposed New Caps for this Continuing Connected Transaction. The Company expects that the Existing Cap for the year of 2014 will not be exceeded.

## LETTER FROM THE BOARD

The said 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 2014, the orders for the Group's heavy-duty vehicles (with gas engines installed) and gas engines have increased steadily. 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 base engines, gas engine parts and related products sold by the Group to Weichai Westport for modification and assembly into gas engines shall maintain a steady growth for the three years ending 31 December 2017, in line with an expected 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. In addition, in line with the development plan of Weichai Westport, the Group shall provide certain utility and labour services, and technology development services in respect of the development of new models of engines to Weichai Westport for the three years ending 31 December 2017.

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 base engines, gas engine parts, utility and labour services, technology development services and related products and services required by Weichai Westport, (iii) the average unit prices of such base engines, gas engine parts and related products; and (iv) the expected transaction amount of this Continuing Connected Transaction for the three years ending 31 December 2017. Taking into account and on the basis of all the aforesaid factors, it is estimated that the overall transaction amount of the sale of the Group's base engines, gas engine parts, utility and labour services, technology development services and related products to Weichai Westport on an annual basis will increase by approximately 12.90% and 11.43% for each of the two years ending 31 December 2017, respectively.

The table below summarises the proposed New Caps for the Continuing Connected Transaction as set out in this sub-section for the three years ending 31 December 2017:

	<b>For the year ending 31 December 2015 RMB</b>	<b>For the year ending 31 December 2016 RMB</b>	<b>For the year ending 31 December 2017 RMB</b>
New Cap	3,100,000,000	3,500,000,000	3,900,000,000

As the proposed New Caps for this Continuing Connected Transaction for the three years ending 31 December 2017 (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

## LETTER FROM THE BOARD

period, and the proposed New Caps for the relevant period are subject to the reporting and announcement, the annual review requirements, and the independent shareholders' approval requirements under Chapter 14A of the Hong Kong Listing Rules.

Since this Continuing Connected Transaction for the three years ending 31 December 2017 (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, this Supplemental Agreement is conditional upon the relevant 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, labour services and related products and services by the Company (and its subsidiaries and/or associates) from Weichai Westport*

Agreement: Supplemental Agreement to the framework agreement in relation to the purchase of gas engines, gas engine parts and related products by the Company (and its subsidiaries and/or associates) from Weichai Westport ("**Weichai Westport Purchase Agreement**") dated 25 December 2012

Date: 8 December 2014

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

Term: 1 January 2015 to 31 December 2017

Other terms and details:

Pursuant to the Weichai Westport Purchase Agreement, each of the Company, Weichai Reproduction and Weichai Resources has purchased 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 has been conducted on 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

Pursuant to this Supplemental Agreement, each of the Company, Weichai Resources and Weichai Reproduction (and/or other associates of the Company) shall purchase certain gas engines, gas engine parts, labour services and related products and services from Weichai Westport, on the same terms and settled on a monthly basis for a term from 1 January 2015 to 31 December 2017, upon the expiry of which the parties may extend the term for three years on a mutually agreed basis. Save as set out herein, all other terms of the Weichai Westport Purchase Agreement remain unchanged. The sale price of the said products and services is determined according to the following mechanism: The market management department of the Company shall regularly carry out market research and analysis on a quarterly basis, taking into account a number of factors (including the prices of at least one to two relevant products in the market in general, market share, orders situation and performance of major competitors in the market). The final price shall be determined based on arm's length negotiations between the parties. The price management department shall review the reasonableness of the price on a regular basis and make adjustments where necessary. The Directors are of the view that the abovementioned methods and procedures under the pricing policies can ensure that this Continuing Connected Transactions are conducted on normal commercial terms and not prejudicial to the interests of the Company and the minority Shareholders.

The table below summarises the Existing Caps for the three years ending 31 December 2014 for this Continuing Connected Transaction:

	<b>Year ended 31 December 2012</b>	<b>Year ended 31 December 2013</b>	<b>Year ending 31 December 2014</b>
Existing Cap	400,000,000*	4,200,000,000	5,500,000,000

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

The table below summarises the actual transaction amounts involved for each of the two years ended 31 December 2013 (audited) and the 10 months ended 31 October 2014 (unaudited) for this Continuing Connected Transaction:

	<b>Year ended 31 December 2012 RMB</b>	<b>Year ended 31 December 2013 RMB</b>	<b>10 months ended 31 October 2014 RMB</b>
Actual transaction amount	1,663,423,167	2,907,283,560	3,413,525,800

The Company estimates that the transaction amount of this Continuing Connected Transaction for the three years ending 31 December 2017 shall not exceed RMB5,300,000,000, RMB5,600,000,000 and RMB6,000,000,000 respectively, and the same have been accordingly set as the proposed New Caps for this Continuing Connected Transaction. The Company expects that the Existing Cap for the year of 2014 will not be exceeded.

## LETTER FROM THE BOARD

In 2014, the orders for the Group's heavy-duty vehicles (with gas engines installed) and gas engines have increased steadily. 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 maintain a steady growth for the three years ending 31 December 2017, in line with 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.

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, labour services and related products and services to be purchased by the Group from Weichai Westport, (iii) the average unit prices of such gas engines, gas engine parts and related products; and (iv) the expected transaction amount of this Continuing Connected Transaction for the three years ending 31 December 2017. Taking into account and on the basis of all the aforesaid factors, it is estimated that the overall transaction amount of the purchase of gas engines, gas engine parts, labour services and related products and services by the Group from Weichai Westport on an annual basis will increase approximately 5.7% and 7.1% for each of the two years ending 31 December 2017, respectively.

The table below summarises the proposed New Caps for the Continuing Connected Transaction as set out in this sub-section for the three years ending 31 December 2017:

	<b>For the year ending 31 December 2015 RMB</b>	<b>For the year ending 31 December 2016 RMB</b>	<b>For the year ending 31 December 2017 RMB</b>
New Cap	5,300,000,000	5,600,000,000	6,000,000,000

As the proposed New Caps for this Continuing Connected Transaction for the three years ending 31 December 2017 (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, the annual review requirements, and the independent shareholders' approval requirements under Chapter 14A of the Hong Kong Listing Rules.

Since this Continuing Connected Transaction for the three years ending 31 December 2017 (on an aggregated basis) is a Non-exempt Continuing Connected Transaction and the proposed New Caps are subject to the approval of the Independent Shareholders, this Supplemental Agreement is conditional upon the relevant resolution being passed at the EGM.



## LETTER FROM THE BOARD

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

The Board has confirmed that the Continuing Connected Transactions have been subject to arm's length negotiations between the Group and Weichai Westport, and have been entered into by the Group in the ordinary and usual course of business and either (i) on normal commercial terms or better, or (ii) on terms no less favourable to the Group than those available to or from (as appropriate) independent third parties. The Directors, 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. It is noted that the Directors who hold certain positions in the substantial Shareholders of the Company do not hold any position in Weichai Westport nor are they interested in its equity. No Director has abstained from voting on the board resolutions approving the Continuing Connected Transactions on 8 December 2014.

As all of the relevant percentage ratios calculated in accordance with the Hong Kong Listing Rules for the Continuing Connected Transactions for the three years ending 31 December 2017 under the Supplemental Agreements (on an aggregated basis) exceed the 5% Threshold, they constitute Non-exempt Continuing Connected Transactions of the Company and their respective proposed New Caps will be subject to the reporting and announcement requirements, the annual review requirements, and the independent shareholders' approval requirements under Chapter 14A of the Hong Kong Listing Rules.



## LETTER FROM THE BOARD

### IV. THE PRC CONTINUING CONNECTED TRANSACTIONS

As set out in announcement of the Company dated 8 December 2014, in addition to the Continuing Connected Transactions, certain transactions which have been conducted between the Group and Weichai Westport in the ordinary course of business as set out under this section (the “**PRC Continuing Connected Transactions**”). On 8 December 2014, the Group has entered in the PRC Supplemental Agreements and shall apply for the new caps for such PRC Continuing Connected Transactions for the three years ending 31 December 2017. The proposed new caps for each of such transactions for the term from 1 January 2015 to 31 December 2017 do not exceed the 0.1% Threshold, and, accordingly, are not subject to the reporting, announcement and independent shareholders’ approval requirements of the Hong Kong Listing Rules. Further, each of such PRC Continuing Connected Transactions is of a different nature from and is carried out independently of the Continuing Connected Transactions. However, pursuant to the requirements of the Shenzhen Listing Rules, the PRC Continuing Connected Transactions have been aggregated with the Continuing Connected Transactions, and such transactions (including the relevant agreements) are subject to the approval of the Independent Shareholders.

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

The PRC Continuing Connected Transactions 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 (and/or its associates) (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	<div style="display: flex; justify-content: space-between;"> <div style="width: 45%;"> <p>(a) Provision of logistics and storage services by Weichai Logistics (and/or its associates) to Weichai Westport</p> </div> <div style="width: 45%;"> <p>(b) Leasing of factory buildings by the Company to Weichai Westport</p> </div> </div>

*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 ending 31 December 2015 RMB	For the year ending 31 December 2016 RMB	For the year ending 31 December 2017 RMB
(1)	Provision of logistics and storage services by Weichai Logistics (and its associates) to Weichai Westport	18,000,000	21,600,000	25,920,000
(2)	Leasing of factory buildings by the Company to Weichai Westport	15,000,000	15,000,000	15,000,000

**Details of the PRC Continuing Connected Transactions and the relevant agreements**

- Provision of logistics and storage services by Weichai Logistics (and its associates) to Weichai Westport*

Agreement: Supplemental agreement to the framework agreement in relation to the provision of logistics and storage services by Weichai Logistics (and its associates) to Weichai Westport ("**Weichai Westport Logistics Agreement**") dated 25 December 2012 as supplemented by a supplemental agreement dated 28 January 2013

Date: 8 December 2014

Parties:

- Weichai Logistics
- Weichai Westport

Term: 1 January 2015 to 31 December 2017

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

Pursuant to the supplemented Weichai Westport Logistics Agreement, Weichai Logistics (and its associates) shall provide certain logistics and storage services to Weichai Westport for the transportation of certain products and after-sale components, for a term from 1 January 2015 to 31 December 2017, upon the expiry of which the parties may extend the term for three years on a mutually agreed basis.

## LETTER FROM THE BOARD

The actual transaction amounts involved for the year ended 31 December 2013 and for the 10 months ended 31 October 2014 (unaudited) for the provision of logistics and storage services by Weichai Logistics to Weichai Westport were RMB2,527,900 and RMB4,940,500, respectively.

The Company estimates that the transaction amount for the three years ending 31 December 2017 shall not exceed RMB18,000,000, RMB21,600,000 and RMB25,920,000 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 2017:

	For the year ending 31 December 2015 RMB	For the year ending 31 December 2016 RMB	For the year ending 31 December 2017 RMB
New cap	18,000,000	21,600,000	25,920,000

The proposed new caps for this PRC Continuing Connected Transaction for the term from 1 January 2015 to 31 December 2017 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: Supplemental agreement to the framework agreement in relation to the leasing of factory buildings by the Company to Weichai Westport ("**Weichai Westport Leasing Agreement**") dated 25 December 2012

Date: 8 December 2014

Parties:

1. The Company
2. Weichai Westport

Term: 1 January 2015 to 31 December 2017

## LETTER FROM THE BOARD

Pursuant to the supplemented Weichai Westport Leasing Agreement, the Company has agreed to lease certain factory buildings to Weichai Westport for a term from 1 January 2015 to 31 December 2017. Upon expiry of the Weichai Westport Leasing Agreement, the parties may renew the term for another three years on a mutually agreed basis.

The actual transaction amounts involved for the year ended 31 December 2013 and for the 10 months ended 31 October 2014 (unaudited) for the leasing of the said factory buildings by the Company to Weichai Westport were RMB4,179,700 and RMB3,483,100, respectively.

The Company estimates that the transaction amount for the three years ending 31 December 2017 shall not exceed RMB15,000,000, RMB15,000,000 and RMB15,000,000 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 2017:

	<b>For the year ending 31 December 2015 RMB</b>	<b>For the year ending 31 December 2016 RMB</b>	<b>For the year ending 31 December 2017 RMB</b>
New cap	15,000,000	15,000,000	15,000,000

The proposed new caps for this PRC Continuing Connected Transaction for the term from 1 January 2015 to 31 December 2017 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.

## LETTER FROM THE BOARD

### V. PROPOSED AMENDMENTS TO ARTICLES OF ASSOCIATION

In line with the development of the Company's business, the Company proposes to make certain amendments to the Articles in relation to the scope of business of the Company and to make certain consequential changes to the amendment history of the Articles. Details of such amendments are as follows:

1. the words "*amended at the Company's 2015 first extraordinary general meeting held on 27 February 2015,*" be inserted after the words "*... amended at the Company's 2012 first extraordinary general meeting held on 30 November 2012,*" in the first paragraph of Article 7 of the original Articles; and
2. Article 13 of the original Articles be deleted in its entirety and replaced by the following:

*"The scope of business of the Company shall be subject to the items approved by the relevant companies registration authorities.*

*The scope of business of the Company includes: the design, development, manufacture, sales, maintenance and import and export of the internal combustion engines, new energy powertrain systems and supplemental products, leasing of self-owned properties, sales of steel materials; provision of the service of enterprise management.*

*The Company shall conduct its business activities within the scope of business approved by the relevant companies registration authorities."*

Since the Company is a PRC incorporated company and the official articles of association of the Company are in the Chinese language, the above proposed amendments are an unofficial English language translation (the "**English Translation**") of the official proposed amendments in the Chinese language (the "**Official Amendments**"), which are set out in the Chinese language version of this circular. Accordingly, in the event of any inconsistency between the English Translation and the Official Amendments, the Official Amendments shall prevail.

### VI. EGM

It is proposed that (i) the relevant New Caps and the Supplemental Agreements in respect of the Non-exempt Continuing Connected Transactions, and the PRC Continuing Connected Transactions; and (ii) the proposed amendments to the Articles, shall be considered and, if thought fit, approved at the EGM.

The EGM Notice setting out the resolutions in respect of (i) the relevant New Caps and the Supplemental Agreements in respect of the Non-exempt Continuing Connected Transactions, and the PRC Continuing Connected Transactions; and (ii) the proposed amendments to the Articles, is set out in this circular. No Shareholder is required to abstain from voting in respect of the resolutions concerning the Non-exempt Continuing Connected Transactions and the PRC Continuing Connected Transactions other than Weichai Holdings and its associates and no Shareholder is required to abstain from voting in respect of the resolution concerning the

## LETTER FROM THE BOARD

amendments to the articles of association, and it is a requirement of the Hong Kong Listing Rules that such voting must be taken by poll.

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 Friday, 6 February 2015.

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.

### VII. RECOMMENDATIONS

Having considered the reasons set out herein, the Directors, including the independent non-executive Directors (having considered the advice of the Independent Financial Adviser), are of the opinion that the relevant New Caps and the terms of the Supplemental 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. Loh Yih, Mr. Chu, Howard Ho Hwa, Mr. Zhang Zhenhua, Mr. Zhang Zhong, Mr. Wang Gongyong and Mr. Ning Xiangdong) 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 Supplemental 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 Supplemental 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)**

7 January 2015

*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 Supplemental Agreements and the relevant New Caps (as defined in the circular of the Company dated 7 January 2015) (the “**Circular**”) in relation to the Non-exempt Continuing Connected Transactions, details of which are set out in the section headed “II. The Continuing Connected Transactions” in the “Letter from the Board” contained in the Circular. Unless the context otherwise requires, terms defined in the Circular shall have the same meanings when used in this letter.

Your attention is drawn to the “Letter from the Board”, the advice of the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders in respect of the 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.



**LETTER FROM THE INDEPENDENT BOARD COMMITTEE  
ON THE NON-EXEMPT CONTINUING CONNECTED TRANSACTIONS**

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 conducted in the ordinary and usual course of the Company's business and are on normal commercial terms, and in the interest of the Company and its shareholders as a whole. We therefore recommend that you vote in favour of the ordinary resolutions to be proposed at the EGM to approve the Supplemental Agreements and the relevant New Caps for the Non-exempt Continuing Connected Transactions.

Yours faithfully,  
The Independent Board Committee

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

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

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

**Zhang Zhong**  
*Independent*  
*non-executive Director*

**Wang Gongyong**  
*Independent*  
*non-executive Director*

**Ning Xiangdong**  
*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 7 January 2015 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.*



昱 豐 融 資 有 限 公 司  
**CERES CAPITAL LIMITED**

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

7 January 2015

*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 Supplemental Agreements governing the Continuing Connected Transactions and the relevant New Caps, details of which are set out in the circular to the Shareholders dated 7 January 2015 (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 Supplemental Agreements governing the Continuing Connected Transactions and the relevant New Caps. Unless otherwise stated, terms defined in the Circular have the same meanings in this letter.

On 8 December 2014, the Board announced, among other things, that the Group entered into the Supplemental Agreements with Weichai Westport to govern the conduct of the Continuing Connected Transactions from 1 January 2015 to 31 December 2017 and apply for the New Caps. Since the New Caps for the Continuing Connected Transactions with Weichai Westport on an aggregated basis exceed the 5% Threshold, these transactions constitute Non-exempt Continuing Connected Transactions of the Company under Chapter 14A of the Hong Kong Listing Rules. Accordingly, the Supplemental Agreements and the respective New Caps are required to be subject to, among other things, the approval of the Independent Shareholders at a general meeting of the Company pursuant to Chapter 14A of the Hong Kong

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

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 terms of the Supplemental Agreements and the proposed New Caps are fair and reasonable; (ii) whether the Continuing Connected Transactions are on normal commercial terms or better and in the ordinary and usual course of business of the Group; (iii) whether the Supplemental Agreements are in the interests of the Company and the Shareholders as a whole; and (iv) whether the Independent Shareholders should vote in favour of the ordinary resolutions to approve the Supplemental Agreements and the New Caps 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 its directors or representatives. We have assumed that all information, representations and opinions contained or referred to in the Circular, which have been provided by the Company and its directors or representatives and for which the Directors are solely and wholly responsible, were true and accurate at the time they were made and continue to be so 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, 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, or the Circular 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 Continuing Connected Transactions, or the prospects of the market 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.

As at the Latest Practicable Date, we did not have any relationships or interests with the Company or any other parties that could reasonably be regarded as relevant to our independence. In the last two years, we have acted as an independent financial adviser to the independent board committee and independent shareholders of the Company in relation to certain continuing connected transactions of the Company (details of which were set out in the circulars of the Company dated 17 January 2013, 8 May 2013, 17 September 2013 and 22 May

<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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2014, respectively). Apart from the normal advisory fees payable to us in connection with our appointments as the independent financial adviser in those transactions, no arrangement existed whereby we had received any other fees or benefits from the Company or any other parties to those transactions. 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 Supplemental Agreements and the New Caps for the three years ending 31 December 2017, 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 2013 (the "2013 Annual Report"), the Company is one of the largest manufacturers of high-power and high-speed diesel engines in the PRC and a leading company in the powertrain 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 15 tonnes (and above) and for construction machinery (mainly wheel loaders) with a load capacity of 5 tonnes in the PRC. In 2013, the Group sold about 280,000 units of diesel truck engines, representing a market share of about 36% based on the total domestic sales of about 774,100 units of heavy-duty trucks with a gross weight of above 14 tonnes in the PRC for the same period. The Group also sold about 72,500 units of construction machinery engines in 2013 for wheel loaders with a load capacity of 5 tonnes, maintaining a leading position in the industry with a market share of about 65%.

During 2013, the Group also sold over 85,800 units of heavy-duty trucks and about 565,700 units of heavy-duty gear boxes. Based on such sales volume and the total domestic sales of about 774,100 units of heavy-duty trucks in the PRC in 2013, the Group had also maintained a dominant 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, and hydraulic controlling parts, etc. In 2013, the Group's sales of such parts and components amounted to approximately RMB3,970 million, representing a year-on-year increase of about 86.5% and about 6.8% 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 annual audited financial results of the Group for the four years ended 31 December 2013 and the unaudited financial results for the six months ended 30 June 2014, which are extracted from the Company's annual reports and interim report for the respective years.

	Year ended 31 December				Six months ended 30 June
	2010	2011	2012	2013	2014
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
	(audited)	(audited)	(audited)	(audited)	(unaudited)
Turnover	62,665,521	60,019,265	48,165,395	58,311,713	34,111,435
Profit attributable to the Shareholders	6,780,935	5,596,927	2,990,997	3,570,791	3,764,836

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 2010, the Group reported total turnover of approximately RMB62,666 million and posted a record high profit attributable to the Shareholders of approximately RMB6,782 million. As noted in the Company's 2010 annual report, the favorable performance 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.

In 2011, as the Chinese government continued to implement its proactive fiscal and monetary policies, 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 4.2% 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 10.8% 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 Company's 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%.

In 2012, amidst the complexity and recessionary pressure of the world economy, 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 year ended 31 December 2012, the Group recorded a turnover of approximately RMB48,165 million, representing a drop of approximately 19.8% compared with that for 2011. Profit attributable to the Shareholders for the same period also declined by approximately 46.6% to approximately RMB2,991 million due primarily to the drop in revenue as well as the decrease in profit margin as a result of the adjustment to product structure.

<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 2013, benefitting from the stability of the general economy, the rebound of fixed-asset investments and the swift development of the logistics industry in the PRC, the heavy-duty truck industry achieved recovery and favorable growth. For the same reasons, the Group's turnover for the year ended 31 December 2013 increased by approximately 21.1% year-on-year to approximately RMB58,312 million. Profit attributable to the Shareholders for the same period also increased by approximately 19.4% to approximately RMB3,571 million.

For the six months ended 30 June 2014, the Group recorded substantial growth in both its turnover and profit attributable to the Shareholders to approximately RMB33,111 million and approximately RMB3,765 million, respectively. The growth in operating performance was due primarily to the consolidation of the operating results of an associated company, which is the largest manufacturer of industrial forklift trucks in Europe, into the financial statements of the Group following its increase in investments in such associated company.

**(b) Industry overview**

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 primarily 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, high-power construction machinery, and power generation units.

Along with its rapid economic and industrial development, China has seen rising levels of air pollution in its cities. In urban areas in China, vehicle exhaust is believed to be one of the main causes of air pollution. According to the statistics of China Association of Automobile Manufacturers (中國汽車工業協會), China has become the world's largest automobile market and manufacturer for five consecutive years, with both production and sales of vehicles exceeding 20 million units in 2013. According to the Ministry of Environmental Protection of the PRC, the number of vehicles on road reached 137 million by the end of 2013, of which over 13 million were yellow-label vehicles. Yellow-label vehicles in China refer to those vehicles which fail to meet the current national vehicle emission standards. The latest official urban pollution source results show that yellow-label vehicles contribute about 50% of the total vehicle exhaust emissions in China.

Based on a 2012 Asian Development Bank report, less than one percent of China's 500 largest cities meet the World Health Organization's air quality standards. In January 2013, Beijing experienced a prolonged bout of severe smog and the concentration of hazardous particles was forty times the level deemed safe by World Health Organization. On 25 January 2014, China Daily reported on the information released by the Ministry of Environmental Protection of the PRC that December was the worst month in 2013 with more than 80 percent of the seventy-four cities in China with air-monitoring devices failing to meet national air quality standards for at least half the month. In March 2014, the World Health Organization reported that air pollution exposure contributed to the deaths of around seven million people worldwide in 2012, with the hardest-hit regions in China and other East Asian countries.



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

Air pollution in China not only poses a serious threat to the public health, it also undermines the nation's economic growth and prospects. As China expands its global influence, air pollution crisis has also bruised China's international standing and image.

In recent few years, the Chinese government has demonstrated its determination to address the air pollution crisis and to promote low-carbon development, and has mapped out environmental initiatives in its national economic development plan. As indicated in the targets under the National 12th Five-Year Plan (2011–2015), the Chinese authorities are willing to forgo some speed of gross domestic product ("GDP") growth in order to make it more inclusive and environmentally sustainable. The 12th Five-Year Plan sets out seven major new strategic industries, for which favorable policies will be implemented to nurture their development over the five-year period. 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. 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.

On 12 September 2013, the State Council released the Action Plan on Prevention and Control of Air Pollution (the "Action Plan") outlining the measures to improve air quality in China. The Action Plan envisions that heavy air pollution, specifically in northern China, will be improved markedly by 2017. Specifically, it sets the targets to reduce the level of inhalable particulate matter in cities above prefecture level by at least 10% against the 2012 level and to slash the level of fine particulate matter in Beijing-Tianjin-Hebei region, the Yangtze River Delta and the Pearl River Delta by 25%, 20% and 15%, respectively.

Among other measures under the wide-ranging Action Plan to cut carbon emissions, a total of six million yellow-label vehicles and outdated and used vehicles with long-mileage and low pollution control technology across the nation would be removed from the street by the end of 2014 and at least another five million such vehicles in Beijing-Tianjin-Hebei region, the Yangtze River Delta and the Pearl River Delta will be eliminated in 2015. By 2017, all yellow-label vehicles in China are expected to be scrapped completely. The push to remove yellow-label vehicles from the roads in China is part of the government's plan to encourage sale of new energy vehicles. Under the Action Plan, central government agencies should take the lead in buying new energy vehicles and at least 30 percent of newly purchased vehicles between 2014 and 2016 should be new energy vehicles. Big cities in Beijing-Tianjin-Hebei region, the Yangtze River Delta and the Pearl River Delta should adopt cleaner fuel standards that meet China V emission standards by the end of 2015, and these standards should be implemented nationwide by the end of 2017.

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. It is expected that following the gradual elimination of yellow-label vehicles and the adoption of China V emission standards, there will be a surge in the sales of clean energy vehicles in the next few years.

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*(c) Relationship between the Group and the connected person under the Supplemental 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 and relevant parts and components, modification of gas engines, business consultation and services.

**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 Supplemental 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 the 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 instead of sourcing from other market suppliers.

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 and relevant parts and components, modification of gas engines, business consultation and services. 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 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 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. In April 2014, WII announced the launch of final customer validation units of the second generation HPDI



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technology on the Group's WP12 engine platform. The Group's WP12 engines with WII's second generation HPDI technology will also be certified to be compliant with China V emission standards.

It is expected that the HPDI gas engines 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 Supplemental 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 and China's environmental protection policy to accelerate the development of alternative-fuel cars, reduction of carbon emissions, and the promotion of energy-saving.

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 Continuing Connected Transactions with Weichai Westport so long as the terms of the transactions are fair and reasonable.

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

*(a) Supply of base engines, gas engine parts, utility and labour services, technology development services and related products and services by the Company (and its subsidiaries and/or associates) to Weichai Westport*

*(i) Principal terms of the Supplemental Agreement*

Pursuant to the Weichai Westport Supply Agreement, each of the Company, Weichai Resources and Weichai Reproduction has supplied 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.

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Under the Supplemental Agreement, each of the Company, Weichai Resources, Weichai Reproduction and Weichai Freshen Air (and/or other associates of the Company) shall supply certain base engines, gas engine parts, utility and labour service, technology development services and related products and services to Weichai Westport, on the same terms for a term from 1 January 2015 to 31 December 2017, upon the expiry of which the parties may extend the term for three years on a mutually agreed basis. Save as aforesaid and the New Caps described below, all other terms of the Weichai Westport Supply Agreement remain unchanged.

The sale prices of the said products and services are determined according to the following mechanism: through market analysis of specific products by the market management department of the Company on a quarterly basis in general, a proposal on the price, which is formulated taking into account an analysis of a number of factors (including the prices of at least one to two relevant products in the market in general, market share, orders situation and performance of major competitors in the market), shall be submitted to the price management department of the Company for approval. The final price shall be determined based on arm's length negotiations between the parties. The price management department shall review the reasonableness of the price on a regular basis and make adjustments where necessary.

We understand from the Company that in determining the sale price under a sales transaction, the Group generally adopts the same pricing mechanism as described above regardless whether the customer is a connected party or an independent third party. On this basis and the fact that there are regular reviews and adjustments, where necessary, on the prices of the products, we consider that the price determination process of the Group demonstrates a normal commercial approach and should result in market prices or fair and reasonable prices for the relevant transactions.

As advised by the Company, they 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 products 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 of base engines under the Supplemental 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. We have noted that the Weichai Westport Supply Agreement (as supplemented by the Supplemental Agreement) does not provide for exclusive arrangement for the supply of products and services by the Group to Weichai Westport. In other words, the Group is not obligated to supply any products or services, including base engines, to Weichai Westport if the Group does not consider the prices offered by Weichai Westport fair and 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 for its base engines 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. As the Group 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

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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 2013 Annual Report that the Group traded with its customers primarily on credit terms, and generally required payment in advance or cash on delivery for new customers. The credit period granted by the Group to its customers was generally one month, extending up to six months for major customers, and the accounts receivable were non-interest bearing. As indicated in the 2013 Annual Report, the Group had audited accounts receivable of approximately RMB5,169 million as at 31 December 2013, of which about 58% aged within three months and about 11% aged between three to six months. Based on such accounts receivable aging analysis, we consider that the settlement arrangement of the transaction amount on a monthly basis under the Weichai Westport Supply Agreement (as supplemented by the Supplemental 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 supply of base engines, gas engine parts, utility and labour services, technology development services and related products and services by the Group to Weichai Westport is conducted in the ordinary and usual course of business of the Group; (ii) the prices of the products and services to be transacted under the Supplemental Agreement shall be market prices and/or prices agreed according to the principle of fairness and reasonableness and the Group shall adopt the same pricing mechanism for both independent third party customers and connected parties; and (iii) the settlement arrangement of the transaction amount on a monthly basis under the Weichai Westport Supply Agreement (as supplemented by the Supplemental 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 Supplemental Agreement governing the supply of base engines, gas engine parts, utility and labour services, technology development services and related products and services 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 products and services by the Group to Weichai Westport for the two years ended 31 December 2012 and 2013 and the 10 months ended 31 October 2014; and (ii) the proposed New Caps for such Continuing Connected Transaction for each of the three years ending 31 December 2015, 2016 and 2017:

	<b>Total transaction amounts in relation to the supply of products and services by the Group to Weichai Westport (RMB'000)</b>	<b>Increase as compared to the preceding financial year (%)</b>
<b>Actual transaction amounts:</b>		
2012	866,058	N/A
2013	1,425,884	64.6
10 months ended 31 October 2014 <i>Note 1</i>	1,680,476	41.4
<b>New Caps:</b>		
2015 <i>Note 2</i>	3,100,000	53.7
2016	3,500,000	12.9
2017	3,900,000	11.4

*Notes:*

1. The percentage increase has been calculated on an annualized basis.
2. The percentage increase has been calculated by comparison with the actual transaction amount in the first 10 months of 2014 on an annualized basis.

As stated in the Letter from the Board, in 2014 the orders for the Group's heavy-duty vehicles with gas engines and other gas engines have increased steadily. The Company has proposed New Caps for the above Continuing Connected Transaction of RMB3,100 million, RMB3,500 million and RMB3,900 million for the three years ending 31 December 2015, 2016 and 2017, respectively. As stated in the Letter from the Board, the proposed New Caps have been prepared by the Company primarily based on (i) the relevant historical transaction amounts; (ii) the estimate of the volume of base engines, gas engine parts, utility and labour services, technology development services and related products and services required by Weichai Westport, (iii) the average unit prices of such base engines, gas engine parts and related products; and (iv) the expected transaction amount of this Continuing Connected Transaction for the three years ending 31 December 2017. Taking into account and on the basis of all the aforesaid factors, it is estimated that the overall transaction amount of the said supply of products and services will increase by approximately 12.9% and 11.4% for each of the two years ending 31 December 2016 and 31 December 2017, respectively.

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We have reviewed and discussed with the Company the basis and assumptions adopted by it in determining the proposed New Caps for the Continuing Connected Transaction in this sub-section and have noted the following in particular:

- The purchase requirements of Weichai Westport have been estimated based on the sales projection of the Group's heavy-duty vehicles with gas engines and other gas engines because almost all (about 98%) of the base engines, and all gas engine parts and related products to be supplied by the Group to Weichai Westport will be used for modification and assembly into gas engines for onward sale back to the Group. As advised by the Company, such sales projection has been set by the Group in line with its own development plan as well as the national policies of the PRC.
- We have discussed with the Company and reviewed its basis and assumptions and the factors considered in determining the Group's requirements of gas engines including those with regard to its sales projection of heavy-duty vehicles with gas engines for 2015, 2016 and 2017 which include the economic conditions in China, the structure and development of new energy vehicles market in China, and the government's policies on environmental protection and development of a low-carbon economy, and the objectives of the National 12th Five-Year Plan. We have noted in particular that the Chinese government has demonstrated its determination to address the air pollution crisis and to promote low-carbon development, and has mapped out environmental initiatives in its national economic development plan. 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. Under the Action Plan, various measures have also been adopted with the objective to tackle the air pollution crisis in China by reducing carbon emissions. In particular, all 13 million yellow-label vehicles and the outdated and used vehicles with long mileage and low pollution control technology nationwide will have to be scrapped gradually by 2017, and purchase of new energy vehicles is encouraged. The central government agencies are also urged to take the lead in buying new energy vehicles and at least 30 percent of newly purchased vehicles between 2014 and 2016 should be new energy vehicles. Big cities in Beijing-Tianjin-Hebei region, the Yangtze River Delta and the Pearl River Delta should adopt cleaner fuel standards that meet China V emission standards by the end of 2015, and these standards should be implemented nationwide by the end of 2017. With the implementation of China's national economic development plan and the policies on environmental protection and energy conservation, the demand for alternative-fuel vehicles providing lower exhaust emissions, such as gas-powered vehicles and gas engines, will increase. On this basis, we consider it reasonable for the Company to determine its sales projection, and hence the proposed New Caps, with reference to the national policies of China. Based on our review and analysis of the information above-mentioned, we are of the opinion that the factors considered and the basis and assumptions adopted by the Company are fair and reasonable for the purposes of determining its requirements of gas engines from Weichai Westport, and hence estimating the purchase requirements of Weichai Westport for the three years ending 31 December 2017.

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- As mentioned in the section headed “Reasons for the Continuing Connected Transactions” above, Weichai Westport’s HPDI natural gas engine is based on the Group’s WP12 base engine platform and 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. As advised by the Company, Weichai Westport’s HPDI gas engine complies with China V emission standards. According to a research report on China natural gas vehicles by Standard Chartered Bank dated 6 December 2012 and based on its conservative estimates, the number of natural gas vehicles in China is projected to increase from about one million units in 2011 to about 2.5 million units by 2015 which will then double to 5 million units by 2020, with more significant growth to be seen in the heavy-duty vehicles sector, such as trucks and buses. In order to meet such growth in demand for natural energy vehicles, the supply 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 indicated in the table above, the transaction amount in relation to the supply of products and services by the Group to Weichai Westport in 2013 was approximately RMB1,426 million, representing an increase of approximately 65% from the transaction amount of approximately RMB866 million for 2012. The transaction amount during the 10 months ended 31 October 2014 was approximately RMB1,680 million, representing a further increase of approximately 41% from that for 2013 on an annualized basis.
- The proposed New Cap of RMB3,100 million for 2015 represents an increase of about 54% over the actual transaction amount for the 10 months ended 31 October 2014 on an annualized basis. In this regard, we have noted an upward trend in the actual transaction amount of supply of products and services by the Group to Weichai Westport as indicated by the substantially higher actual transaction amount recorded in October 2014 as compared to the average transaction amount in earlier months of the year. Another reason for the increase in the estimated transaction amount for 2015 is the additional technology development services to be provided by the Group to Weichai Westport under the Supplemental Agreement. As part of the Group’s ongoing commitment to expand its product offerings to customers, the Group will provide technology development services to Weichai Westport in respect of development of new models of engines. Technology development projects that will soon commence include those in respect of enhancement of torque for 4-valve gas engine compliant with China V emission standards, and development of electronic-controlled system for gas engines compliant with Euro VI emission standards.
- The respective proposed New Caps of RMB3,500 million and RMB3,900 million for 2016 and 2017 represent an annual growth of approximately 12.9% and 11.4%, respectively, over the proposed New Cap for the preceding year. We have noted that the Company has estimated an annual growth of about 5% in the amount of base engines, gas engine parts and related products to be supplied by the Group to Weichai Westport for each of the two years ending 31 December 2016 and 2017. In addition, the Company has estimated that the



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transaction amount related to the provision of general labour and after-sales maintenance services will increase by about 10%–20% for each of the two years ending 31 December 2016 and 2017. The relatively higher estimated growth rate for these services is primarily due to the calculation from a relatively low base of transaction amount for previous year which is expected to increase along with the increasing need of labour and after-sales maintenance services for the products supplied by the Group to Weichai Westport over the past years.

- 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, utility and labour services, technology development services and related products and services to be supplied by the Group to Weichai Westport for each of the three years ending 31 December 2015, 2016 and 2017. We have also reviewed the actual transaction amounts for the supply of the relevant products by the Group to Weichai Westport, including the quantity and average unit prices of base engines, for the two years ended 31 December 2013 and the 10 months ended 31 October 2014. We consider that the Company's estimates in determining the New Caps for years 2015, 2016 and 2017 are consistent with its overall sales projection for gas engines and are also consistent with the historical transaction data of the relevant products.

In summary, on the basis that (i) the proposed New Caps have been determined based on factors in line with China's national economic development plan to promote sustainable development and a low-carbon economy; (ii) the estimated growth rates adopted by the Company 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 the adoption of China V emission standards nationwide; and (iv) gas engine products developed by Weichai Westport using the HPDI technology comply with China V emission standards; we are of the view that the basis 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, utility and labour services, technology development services and related products and services by the Group to Weichai Westport for the three years ending 31 December 2015, 2016 and 2017 of RMB3,100 million, RMB3,500 million and RMB3,900 million, respectively, are fair and reasonable.

***(b) Purchase of gas engines, gas engine parts, labour services and related products and services by the Company (and its subsidiaries and/or associates) from Weichai Westport***

***(i) Principal terms of the Supplemental 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.

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Under the Supplemental Agreement, each of the Company, Weichai Resources and, Weichai Reproduction (and/or other associates of the Company) shall purchase certain gas engines, gas engine parts, labour services and related products and services from Weichai Westport, on the same terms for a term from 1 January 2015 to 31 December 2017, upon the expiry of which the parties may extend the term for three years on a mutually agreed basis. Save as aforesaid and the New Caps described below, all other terms of the Weichai Westport Purchase Agreement remain unchanged.

The purchase prices of the said products and services are determined according to the following mechanism: the market management department of the Company shall regularly carry out market research and analysis on a quarterly basis, taking into account a number of factors (including the prices of at least one to two relevant products in the market in general, market share, orders situation and performance of major competitors in the market). The final price shall be determined based on arm's length negotiations between the parties. The price management department shall review the reasonableness of the price on a regular basis and make adjustments where necessary.

We understand from the Company that in determining the purchase price under a purchase transaction, the Group generally adopts the same pricing mechanism as described above regardless whether the supplier is a connected party or an independent third party. On this basis and the fact that there are regular reviews and adjustments, where necessary, on the prices of the products, we consider that the price determination process of the Group demonstrates a normal commercial approach and should result in market prices or fair and reasonable prices for the relevant transactions.

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 420 patent applications filed worldwide. As advised by the Company, the gas engines purchased by the Group from Weichai Westport under the Weichai Westport Purchase Agreement (as supplemented by the Supplemental 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 Group for restoration and/or modification into base engines which may be sold to Weichai Westport or other customers. The gas engine parts, labour services and related products and services purchased by the Group under the Weichai Westport Purchase Agreement (as supplemented by the Supplemental 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 (as supplemented by the Supplemental 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 products that are comparable to those under the Weichai Westport Purchase Agreement (as supplemented by the Supplemental Agreement). However, as advised by the Company, Weichai Westport sells similar gas engines to its other customers. We have reviewed 10 sale invoice samples for gas engines between Weichai Westport and its customers, including the Company. We have noted that the



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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.

We have noted from the 2013 Annual Report that the Group's accounts payable were generally settled within three to four months. As indicated in the 2013 Annual Report, the Group had audited accounts payable of approximately RMB13,473 million as at 31 December 2013, of which about 82% aged within three months. Based on such accounts payable aging analysis, we consider that the settlement arrangement for the transaction amount on a monthly basis under the Weichai Westport Purchase Agreement (as supplemented by the Supplemental 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 (as supplemented by the Supplemental Agreement) described in sub-section 3(a)(i) above.

In summary, (i) the purchase of gas engines, gas engine parts, labour services and related products and services by the Group from Weichai Westport is conducted in the ordinary and usual course of business of the Group; (ii) the prices of the products and services under this Continuing Connected Transaction shall be market prices and/or prices determined according to the principle of fairness and reasonableness and the Group shall adopt the same pricing mechanism for both independent third party suppliers and connected parties; and (iii) the settlement arrangement for the transaction amount on a monthly basis under the Weichai Westport Purchase Agreement (as supplemented by the Supplemental 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 (as supplemented by the Supplemental Agreement). On this basis, we are of the opinion that the Supplemental Agreement governing the purchase of gas engines, gas engine parts, labour services and related products and services 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.

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(ii) *Rationale for determining the New Caps*

The table below sets out (i) the actual transaction amounts involved in the purchase of products and services by the Group from Weichai Westport for the two years ended 31 December 2012 and 2013 and the 10 months ended 31 October 2014; and (ii) the proposed New Caps for the Continuing Connected Transaction for the three years ending 31 December 2015, 2016 and 2017.

	<b>Total transaction amount in relation to the purchase of products and services by the Group from Weichai Westport (RMB'000)</b>	<b>Increase as compared to the preceding financial year/period (%)</b>
<b>Actual transaction amounts:</b>		
2012	1,663,423	N/A
2013	2,907,284	74.8
10 months up to 31 October 2014 <i>Note 1</i>	3,413,526	40.9
<b>New Caps</b>		
2015 <i>Note 2</i>	5,300,000	29.4
2016	5,600,000	5.7
2017	6,000,000	7.1

*Notes:*

1. The percentage change is calculated on an annualized basis.
2. The percentage change is calculated by comparison with the transaction amount in the first 10 months of 2014 on an annualized basis.

As stated in the Letter from the Board, in 2014 the orders for the Group's heavy-duty vehicles with gas engines and other gas engines have increased steadily. The Company has proposed New Caps for the above Continuing Connected Transaction of RMB5,300 million, RMB5,600 million and RMB6,000 million for the three years ending 31 December 2015, 2016 and 2017, respectively. As stated in the 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, labour services and related products and services to be purchased by the Group from Weichai Westport, (iii) the average unit prices of such gas engines, gas engine parts and related products; and (iv) the expected transaction amount of this Continuing Connected Transaction for the three years ending 31 December 2017. Taking into account and on the basis of all the aforesaid factors, it is estimated that the overall transaction amount of the said purchase of products and services will increase by approximately 5.7% and 7.1% for each of the two years ending 31 December 2016 and 31 December 2017, respectively.

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We have reviewed and discussed with the Company the basis and assumptions adopted by it in determining the proposed New Caps for the Continuing Connected Transaction in this sub-section and have noted the following in particular:

- As advised by the Company, the gas engines, gas engines parts and related products for onward sale to its customers. These gas engine products are currently used primarily in heavy-duty trucks, passenger vehicles, high-power construction machinery, and power generation units. The purchase requirements of the Group have been estimated based on the sales projection of the Group's heavy-duty vehicles with gas engines and other gas engines. As advised by the Company, such sales projection has been set by the Group in line with its own development plan as well as the national policies of the PRC.
- We have discussed with the Company and reviewed its basis and assumptions and the factors considered in determining the Group's purchase requirements from Weichai Westport for 2015, 2016 and 2017 which include the economic conditions in China, the structure and development of new energy vehicles market in China, and the government's policies on environmental protection and development of a low-carbon economy, and the objectives of the National 12th Five-Year Plan. We have noted in particular that the Chinese government has demonstrated its determination to address the air pollution crisis and to promote low-carbon development, and has mapped out environmental initiatives in its national economic development plan. 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. Under the Action Plan, various measures have also been adopted with the objective to tackle the air pollution crisis in China by reducing carbon emissions. In particular, all 13 million yellow-label vehicles and the outdated and used vehicles with long mileage and low pollution control technology nationwide will have to be scrapped gradually by 2017, and purchase of new energy vehicles is encouraged. The central government agencies are also urged to take the lead in buying new energy vehicles and at least 30 percent of newly purchased vehicles between 2014 and 2016 should be new energy vehicles. Big cities in Beijing-Tianjin-Hebei region, the Yangtze River Delta and the Pearl River Delta should adopt cleaner fuel standards that meet China V emission standards by the end of 2015, and these standards should be implemented nationwide by the end of 2017. With the implementation of China's national economic development plan and the policies on environmental protection and energy conservation, the demand for alternative-fuel vehicles providing lower exhaust emissions, such as gas-powered vehicles and gas engines, will increase. On this basis, we consider it reasonable for the Company to determine its sales projection, and hence the proposed New Caps, with reference to the national policies of China. Based on our review and analysis of the information above-mentioned, we are of the opinion that the factors considered and the basis and assumptions adopted by the Company are fair and reasonable for the purposes of determining the Group's purchase requirements of gas engines, gas engine parts, labour services and related products and services from Weichai Westport for the three years ending 31 December 2017.

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

- As mentioned in the section headed “Reasons for the Continuing Connected Transactions” above, Weichai Westport’s HPDI natural gas engine is based on the Group’s WP12 base engine platform and 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. As advised by the Company, Weichai Westport’s HPDI gas engine complies with China V emission standards. According to a research report on China natural gas vehicles by Standard Chartered Bank dated 6 December 2012 and based on its conservative estimates, the number of natural gas vehicles in China is projected to increase from about one million units in 2011 to about 2.5 million units by 2015 which will then double to 5 million units by 2020, with more significant growth to be seen in the heavy-duty vehicles sector, such as trucks and buses. In order to meet such growth in demand for natural energy vehicles, the purchase of gas engines, gas engine parts, labour services and related products and services by the Group from Weichai Westport will also increase.
- As indicated in the table above, the transaction amount in relation to the purchase of products and services by the Group from Weichai Westport in 2013 was approximately RMB2,907 million, representing an increase of approximately 75% from the transaction amount of approximately RMB1,663 million for 2012. The transaction amount during the 10 months ended 31 October 2014 was approximately RMB3,414 million, representing a further increase of approximately 41% from that for 2013 on an annualized basis.
- The proposed New Cap of RMB5,300 million for 2015 represents an increase of about 29% over the actual transaction amount for the 10 months ended 31 October 2014 on an annualized basis. In this regard, we have noted an upward trend in the actual transaction amount of purchase of products and services by the Group from Weichai Westport as indicated by the substantially higher actual transaction amount recorded in October 2014 as compared to the average transaction amount in earlier months of the year.
- The respective proposed New Caps of RMB5,600 million and RMB6,000 million for 2016 and 2017 represent an annual growth of approximately 6% and 7%, respectively, over the proposed New Cap for the preceding year. We have noted that the Company has estimated an annual growth of about 5% in the amount of gas engines and about 20% in the amount of gas engines parts to be purchased by the Group from Weichai Westport for each of the two years ending 31 December 2016 and 2017. The relatively higher estimated growth rate for gas engine parts is primarily due to the increasing requirements for gas engine parts for after-sales maintenance and repair services for the gas engines purchased by the Group or its customers over the past years.
- We consider it reasonable to estimate a more significant growth rate in the Group’s purchase requirements from Weichai Westport in 2015 as a surge in the demand for new energy vehicles is expected following the scrap of a huge number of yellow-label vehicles and the outdated and used vehicles with long mileage and low pollution control technology in 2014 and 2015 under the Action Plan. The demand for new energy vehicles, and hence Weichai Westport’s gas engines, is expected to stabilize thereafter.

<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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- 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, labour services, and related products and services to be purchased by the Group from Weichai Westport for each of the three years ending 31 December 2015, 2016 and 2017. We have also reviewed the actual transaction amounts for the purchase of the relevant products by the Group from Weichai Westport, including the quantity and average unit prices of gas engines, for the two years ended 31 December 2013 and the 10 months ended 31 October 2014. We consider that the Company's estimates in determining the New Caps for years 2015, 2016 and 2017 are consistent with its overall sales projection for gas engines and are also consistent with the historical transaction data of the relevant products.

In summary, on the basis that (i) the proposed New Caps have been determined based on factors in line with China's national economic development plan to promote sustainable development and a low-carbon economy; (ii) the estimated growth rates adopted by the Company 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 the adoption of China V emission standards nationwide; and (iv) gas engine products developed by Weichai Westport using the HPDI technology comply with China V emission standards; we are of the view that the basis 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, labour services, and related products and services by the Group from Weichai Westport for the three years ending 31 December 2015, 2016 and 2017 of RMB5,300 million, RMB5,600 million and RMB6,000 million, respectively, are fair and reasonable.

#### **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 agreement governing the Non-exempt Continuing Connected Transactions; and
  - (iv) have not exceeded the New Caps as disclosed;

<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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- (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.

#### **RECOMMENDATION**

In formulating our recommendation to the Independent Board Committee and the Independent Shareholders in respect of the Supplemental Agreements governing the 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 Continuing Connected Transactions are conducted in the ordinary and usual course of business of the Group and on normal commercial terms or terms no less favorable to the Group than those available to or from (as appropriate) independent third parties.
- The basis and assumptions adopted by the Group for determining the relevant New Caps are reasonable.

Based on the above considerations, we are of the opinion that (i) the terms of the Supplemental Agreements and the proposed New Caps for the three years ending 31 December 2017 are fair and reasonable; (ii) the Continuing Connected Transactions are on normal commercial terms and in the ordinary and usual course of business of the Company; and (iii) the Supplemental Agreements are in the interests of the Company and the Shareholders as a whole.

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

Accordingly, we recommend the Independent Shareholders, as well as the Independent Board Committee to advise the Independent Shareholders, to vote in favour of the ordinary resolutions to be proposed at the EGM to approve the Supplemental Agreements and the proposed New Caps.

Yours faithfully,

For and on behalf of

**Ceres Capital Limited**

**Frank Moy**

*Managing Director*

**Jinny Mok**

*Executive Director*

*Mr. Frank Moy and Ms. Jinny Mok are licensed persons under the Securities and Futures Ordinance to carry on Type 6 (advising on corporate finance) regulated activity and are the responsible officers of Ceres Capital Limited. They both have over 20 years of experience in the banking and finance industry and have participated in various corporate advisory transactions, including giving independent financial advice on connected transactions pursuant to the Hong Kong Listing Rules.*



## 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:

### Interests in the shares of the Company

Name of Director	Capacity	Number of A Shares held	Number of H Shares held	Percentage of the issued share capital of the Company
Tan Xuguang	Beneficial owner	14,710,649 (Note 1)	–	0.74%
Xu Xinyu	Beneficial owner	3,421,081 (Note 1)	–	0.17%
Sun Shaojun	Beneficial owner	3,421,081 (Note 1)	–	0.17%
Zhang Quan	Beneficial owner	3,421,081 (Note 1)	–	0.17%
Yeung Sai Hong (Note 3)	Held by controlled corporation	45,283,907 (Note 2)	–	2.26%
Julius G. Kiss (Note 4)	Held by controlled corporation	39,840,000 (Note 2)	–	1.99%
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 45,283,907 A 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 39,840,000 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.

**Interests in the shares of associated corporations of the Company**

Name of Director	Name of associated corporation	Nature of interest	Class and number of securities interested or deemed to be interested	Approximate percentage interest in the entire issued share capital of associated corporations as at the Latest Practicable Date
Gordon Riske (Note)	KION Group AG	Beneficial owner	365,250 ordinary shares	0.37%
		Interest held by spouse	3,000 ordinary shares	0.003%

*Note:* Gordon Riske, a non-executive Director, was the beneficial owner of 365,250 shares in KION Group AG and he was also deemed to be interested in 3,000 shares in KION Group AG which were beneficially held by his wife, Ms. Benita Riske.

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

The register of substantial Shareholders maintained by the Company pursuant to Section 336 of the SFO (including interests filed with The Stock Exchange 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	Beneficial owner	Long	336,476,400	22.23%	–	–	16.83%
Shandong Heavy Industry Group Co., Ltd. (Note 1)	Held by controlled corporation	Long	336,476,400	22.23%	–	–	16.83%
State-owned Assets Supervision and Administration Commission of Shandong Province (“Shandong SASAC”) (Note 1)	Held by controlled corporation	Long	336,476,400	22.23%	–	–	16.83%
Brandes Investment Partners, LP	Investment manager	Long	–	–	78,578,612	16.18%	3.93%
Lazard Asset Management LLC	Investment manager	Long	–	–	63,164,476	13.00%	3.16%
Schroders Plc	Investment manager	Long	–	–	43,753,999	9.01%	2.19%
JPMorgan Chase & Co.	Beneficial owner	Long	–	–	3,780,897	0.78%	0.19%
	Custodian – Corporation/ approved lending agent	Long	–	–	58,424,371	12.03%	2.92%
	Trustee (other than a bare trustee)	Long	–	–	576	0.00%	0.00%
	Investment manager	Long	–	–	15,300,856	3.15%	0.77%
					<u>77,506,700</u>	<u>15.96%</u>	<u>3.88%</u>
BlackRock, Inc.	Interest of corporation controlled by the substantial shareholders	Long	–	–	25,290,954	5.21%	1.26%
	Interest of corporation controlled by the substantial shareholders	Short	–	–	3,819,200	0.79%	0.19%
Templeton Investment Counsel, LLC	Investment manager	Long	–	–	34,224,980	7.05%	1.71%
Lazard Emerging Markets Equity Portfolio (Note 2)	Investment manager	Long	–	–	23,707,500	5.86%	1.42%

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
Barclays PLC	Person having a security interest in shares	Long	–	–	525,552	0.11%	0.03%
	Interest of corporation controlled by the substantial shareholder	Long	–	–	25,453,050	5.24%	1.27%
					<u>25,978,602</u>	<u>5.35%</u>	<u>1.30%</u>
	Interest of corporation controlled by the substantial shareholder	Short	–	–	24,102,475	4.96%	1.21%

*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 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.

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

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

Name of Director	Positions held in Weichai Holdings	Positions held in Shandong Heavy Industry Group
Tan Xuguang	Chairman	Chairman
Jiang Kui	Vice president	Director, general manager
Xu Xinyu	Director	–
Sun Shaojun	Director	–
Zhang Quan	Director	–

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 31 December 2013, 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 31 December 2013, 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.

### 4. MATERIAL ADVERSE CHANGE

The Directors are not aware of any material adverse change in the financial or trading position of the Group since 31 December 2013, the date to which the latest audited consolidated financial statements of the Group were made up.

### 5. EXPERT

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

Name	Qualification
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 7 January 2015 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 7 January 2015 to 21 January 2015 (both days inclusive):

- (a) the letter from the Independent Financial Adviser as set out in this circular;
- (b) the written consent from the Independent Financial Adviser referred to in paragraph 5 of this appendix;
- (c) the letter from the Independent Board Committee as set out in this circular; and
- (d) the Supplemental Agreements, the Weichai Westport Supply Agreement, the Weichai Westport Purchase Agreement and the PRC Supplemental 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 Friday, 27 February 2015 at 2:30 p.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 7 January 2015, 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 supplemental agreement to the Weichai Westport Supply Agreement dated 8 December 2014 referred to in the section headed “II. The Continuing Connected Transactions – 1. Supply of base engines, gas engine parts, utility and labour services, technology development services and related products and services by the Company (and its subsidiaries and/or associates) 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.”<sup>(note 1)</sup>
2. “**THAT** the supplemental agreement to the Weichai Westport Purchase Agreement dated 8 December 2014 referred to in the section headed “II. The Continuing Connected Transactions – 2. Purchase of gas engines, gas engine parts, labour services and related products and services by the Company (and its subsidiaries and/or associates) 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.”<sup>(note 1)</sup>
3. “**THAT** the supplemental agreement to the Weichai Westport Logistics Agreement dated 8 December 2014 referred to in the section headed “IV. The PRC Continuing Connected Transactions” in the “Letter from the Board” contained in the Circular and the relevant new caps be and are hereby approved.”<sup>(note 1)</sup>



## NOTICE OF THE EGM

4. “**THAT** the supplemental agreement to the Weichai Westport Leasing Agreement dated 8 December 2014 referred to in the section headed “IV. The PRC Continuing Connected Transactions” in the “Letter from the Board” contained in the Circular and the relevant new caps be and are hereby approved.”<sup>(note J)</sup>

### SPECIAL RESOLUTION

To consider and, if thought fit, pass the following resolution as a special resolution:

“**THAT** the proposed amendments to the Articles of Association of the Company as set out in the section headed “V. Proposed amendments to Articles of Association” in the “Letter from the Board” contained in the Circular be and are hereby approved.”

By Order of the Board of Directors  
**Weichai Power Co., Ltd.**  
**Kwong Kwan Tong**  
*Company Secretary*

Hong Kong, 7 January 2015

*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 Wednesday, 28 January 2015 to Friday, 27 February 2015 (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 Tuesday, 27 January 2015 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 27 January 2015. 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 Friday, 6 February 2015). 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) 819 7069  
Facsimile No.: 86 (536) 819 7073

## NOTICE OF THE EGM

- (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.
- (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.
- (J) Weichai Holdings and its associates shall abstain from voting in respect of this resolution.