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WEICHAI

潍柴动力股份有限公司

WEICHAI POWER CO., LTD.

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

(Stock Code: 2338)

CONTINUING CONNECTED TRANSACTIONS

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

TRINITY

TRINITY CORPORATE FINANCE LIMITED

A letter from the Board is set out on pages 8 to 34 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 37 to 55 of this circular.

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

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DEFINITIONS

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

“0.1% Threshold”	the thresholds referred to in Rule 14A.76(1)(a) of the Listing Rules
“5% Threshold”	the thresholds referred to in Rule 14A.76(2)(a) of the Listing Rules
“A Share(s)”	the A Share(s), being ordinary share(s) issued, in the capital of the Company with a RMB denominated par value of RMB1.00 each and are listed on the Shenzhen Stock Exchange
“Articles”	the articles of association of the Company
“Baoji Huashan”	寶雞華山工程車輛有限責任公司 (Baoji Huashan Engineering Vehicles Co. Ltd.*), a company established in the PRC and a connected person of the Company
“Board”	the board of Directors
“Changsha Huantong”	陝西汽車集團長沙環通汽車製造有限公司 (Shaanxi Automobile Group Changsha Huantong Automobile Manufacturing Co. Ltd.*), a company established in the PRC and a connected person of the Company
“Company”	濰柴動力股份有限公司 (Weichai Power Co., Ltd.), a company established in the PRC with limited liability
“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, comprising the Weichai Continuing Connected Transaction(s) and the TAGC Continuing Connected Transaction
“Deyin Logistic”	陝西德銀物流有限公司 (Shaanxi Deyin Logistic Co., Ltd.*), a company established in the PRC and a connected person of the Company
“Director(s)”	the director(s) of the Company
“Dongfeng Axle”	陝西東風車橋傳動軸系統股份有限公司 (Shaanxi Dongfeng Axle Transmission Axle System Co., Ltd.*), a company established in the PRC and a connected person of the Company

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“EGM”	the extraordinary general meeting of the Company to be held on 30 August 2017 to consider and, if thought fit, approve, <i>inter alia</i> , the New Caps and the Supplemental Agreements in respect of the Continuing Connected Transactions and the PRC Continuing Connected Transactions
“EGM Notice”	the notice of the Company convening the EGM dated 14 July 2017
“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, and “Group Company” means any of the same
“H Share(s)”	the H Share(s), being the overseas listed foreign share(s) issued, in the capital of the Company with a RMB denominated par value of RMB1.00 each and are listed on the main board of the Stock Exchange
“Hande Axle”	陝西漢德車橋有限公司 (Shaanxi Hande Axle Co., Ltd.*), a company established in the PRC and is held as to approximately 3.06% by the Company and as to approximately 94% by Shaanxi Zhongqi
“Huazhen Trading”	陝西華臻工貿服務有限責任公司 (Shaanxi Huazhen Industry and Trading Services Co., Ltd.*), a company established in the PRC and a connected person of the Company
“Independent Board Committee”	a committee of the Board comprising, Mr. Loh Yih, Mr. Zhang Zhong, Mr. Wang Gongyong, Mr. Ning Xiangdong and Mr. Li Hongwu, being the independent non-executive Directors
“Independent Financial Adviser”	Trinity Corporate Finance Limited, the independent financial adviser appointed by the Company to advise the Independent Board Committee and the Independent Shareholders in respect of the Non-exempt Continuing Connected Transactions
“Independent Shareholders”	Shareholders who are not required to abstain from voting at the EGM

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“Jinding”	陝西金鼎鑄造有限公司 (Shaanxi Jinding Casting Co., Ltd.*), a company established in the PRC and is held as to approximately 95.76% by Shaanxi Zhongqi and as to approximately 4.24% by Hande Axle
“Latest Practicable Date”	4 August 2017
“Listing Rules”	the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited
“Merger”	the Merger on 24 April 2007 (as announced in the announcement of the Company dated 25 April 2007), as a result of which the original subsidiaries of TAGC, together with other the assets and liabilities of TAGC, were absorbed by the Company
“New Cap(s)”	as defined in the section headed “II. The Continuing Connected Transactions” in this circular
“Non-exempt Continuing Connected Transactions”	being the Weichai Continuing Connected Transactions, 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 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”	the Continuing Connected Transactions set out under the section headed “IV. PRC Continuing Connected Transactions” in this circular. For details, please refer to the announcement of the Company entitled 《濰柴動力股份有限公司日常持續性關聯交易公告》 (“Announcement of Weichai Power Co., Ltd. in respect of its Continuing Connected Transactions in the Ordinary Course of Business”) dated 14 July 2017 on the Shenzhen Stock Exchange
“PRC Supplemental Agreements”	the supplemental agreements in respect of the PRC Continuing Connected Transactions
“RMB”	Renminbi, the lawful currency of the PRC

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“Shaanqi Holdings”	陝西汽車控股集團有限公司 (Shaanxi Automobile Holding Group Co., Ltd.*), a company established in the PRC and a connected person of the Company
“Shaanqi Industry”	陝西汽車實業有限公司 (Shaanxi Automobile Industry Co., Ltd.*), a company established in the PRC and a connected person of the Company
“Shaanxi Automotive”	陝西汽車集團有限責任公司 (Shaanxi Automobile Group Co. Ltd.*), a company established in the PRC and a connected person of the Company
“Shaanxi Dongming”	陝西東銘車輛系統股份有限公司 (Shaanxi Dongming Vehicle System Co., Ltd.*), a company established in the PRC and a connected person of the Company
“Shaanxi Fangyuan”	陝西方圓汽車標準件有限公司 (Shaanxi Fangyuan Automobile Standard Components Co. Ltd.*), a company established in the PRC and a connected person of the Company
“Shaanxi Huazhen”	陝西華臻三產工貿有限責任公司 (Shaanxi Huazhen Sancan Industry and Trading Co. Ltd.*), a company established in the PRC and a connected person of the Company
“Shaanxi Import and Export”	陝西重型汽車進出口有限公司 (Shaanxi Heavy Duty Automotive Import and Export Co., Ltd.*), a company established in the PRC and a wholly-owned subsidiary of Shaanxi Zhongqi
“Shaanxi Lantong”	陝西藍通傳動軸有限公司 (Shaanxi Lantong Transmission Axle Co., Ltd.*), a company established in the PRC and a connected person of the Company
“Shaanxi Tongchuang”	陝西同創華亨汽車散熱裝置器有限責任公司 (Shaanxi Tongchuang Huaheng Vehicle Radiator Co. Ltd.*), a company established in the PRC and a connected person of the Company
“Shaanxi Tongli”	陝西通力專用汽車有限責任公司 (Shaanxi Tongli Special Purpose Vehicle Co. Ltd.*), a company established in the PRC and a connected person of the Company

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“Shaanxi Wanfang”	陝西萬方汽車零部件有限公司 (Shaanxi Wanfang Vehicle Parts and Components Co. Ltd.*), a company established in the PRC and a connected person of the Company
“Shaanxi Zhongqi”	陝西重型汽車有限公司 (Shaanxi Heavy Duty Motor Company Limited*), a company established in the PRC and a subsidiary of the Company
“Shareholder(s)”	holder(s) of the shares of the Company
“Shenzhen Listing Rules”	《股票上市規則》(“listing rules”) of the Shenzhen Stock Exchange
“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
“TAGC”	湘火炬汽車集團股份有限公司 (Torch Automotive Group Co., Ltd.*), a company established in the PRC and has ceased to exist
“TAGC Continuing Connected Transaction”	the Continuing Connected Transaction under section II.B. of this circular
“Tiangua”	天津市天掛車輛有限公司 (Tianjin Tiangua Automotive Co., Ltd.*), a company established in the PRC and is a wholly-owned subsidiary of Shaanxi Zhongqi
“Tonghui Logistic”	陝西通匯物流有限公司 (Shaanxi Tonghui Logistic Co., Ltd.*), a company established in the PRC and a connected person of the Company
“Weichai After-sales Services”	濰柴(濰坊)後市場服務有限公司 (Weichai (Weifang) After-sales Market Services Co., Ltd.*) (formerly known as 濰柴動力(濰坊)備品資源公司 (Weichai Power Reserves and Resources Company Limited*)), a company established in the PRC and a subsidiary of the Company

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“Weichai Continuing Connected Transaction(s)”	the Continuing Connected Transaction(s) under section II.A. of this circular
“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 Co., Ltd.*), a company established in the PRC and a wholly-owned subsidiary of the Company
“Weichai Reproduction”	濰柴動力(濰坊)再製造有限公司 (Weichai Power (Weifang) Reproduction Co., Ltd.*), a company established in the PRC and a wholly-owned subsidiary of the Company
“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 Leasing Agreement”	has the meaning as ascribed to it under the section headed “IV.2. Leasing of factory buildings by the Company to Weichai Westport” in this circular
“Weichai Westport Logistics Agreement”	has the meaning as ascribed to it under the section headed “IV.1. Provision of logistics and storage services by Weichai Logistics (and its associates) to Weichai Westport” in this circular
“Weichai Westport Purchase Agreement”	has the meaning ascribed to it under the section headed “II.A.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

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“Weichai Westport Supply Agreement”	has the meaning ascribed to it under the section headed “II.A.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
“Wenzhou Yunding”	陝西汽車集團溫州雲頂汽車有限公司 (Shaanxi Vehicle Group Wenzhou Yunding Vehicle Co., Ltd.*), a company established in the PRC and a connected person of the Company
“Xian Lande”	西安蘭德新能源汽車技術開發有限公司 (Xian Lande New Energy Technology Development Co., Ltd.*), a company established in the PRC and a connected person of the Company
“Xunyang Baotong”	陝西汽車集團旬陽寶通專用車有限公司 (Shaanxi Vehicle Group Xunyang Baotong Special Purpose Vehicle Co., Ltd.*), a company established in the PRC and a connected person of the Company
“Yanan Vehicle”	陝西汽車集團延安專用車有限公司 (Shaanxi Vehicle Group Yanan Special Purpose Vehicle Co., Ltd.*), a company established in the PRC and a connected person of the Company
“Zhongjiao Tianjian”	陝西中交天健車聯網信息技術有限公司 (Shaanxi Zhongjiao Tianjian Vehicle Net Information Technology Co., Ltd.*), a company established in the PRC and a connected person of the Company
“%”	per cent.

* For identification purpose only

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

LETTER FROM THE BOARD



WEICHAI

潍柴动力股份有限公司

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*)

Zhang Quan (*Executive President*)

Xu Xinyu (*Executive President*)

Sun Shaojun (*Executive President*)

Yuan Hongming

Yan Jianbo

Non-executive Directors:

Wang Yuepu

Jiang Kui

Gordon Riske

Independent Non-executive Directors:

Loh Yih

Zhang Zhong

Wang Gongyong

Ning Xiangdong

Li Hongwu

Supervisors:

Lu Wenwu

Jiang Jianfang

Ma Changhai

Registered office:

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High Technology Industrial

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Shandong Province

The People's Republic of China

Principal place of business

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34th Floor, Gloucester Tower

Landmark

15 Queen's Road Central

Central, Hong Kong

11 August 2017

To: *Holders of H Shares*

Holders of A Shares

Dear Sir or Madam,

CONTINUING CONNECTED TRANSACTIONS

I. INTRODUCTION

It was announced by the Board on 14 July 2017 that on 14 July 2017, the Company entered into the Supplemental Agreements in respect of the Continuing Connected Transactions, being the Weichai Continuing Connected Transactions and the TAGC Continuing Connected Transaction. This circular gives you further information in relation to, *inter alia*, the Weichai

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

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:

A. Weichai Continuing Connected Transactions

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 After-sales Services, 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 51% by Weichai Holdings, a substantial shareholder of the Company	<ol style="list-style-type: none"> 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 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

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B. TAGC Continuing Connected Transaction

Name of connected person	Name of Group Company	Connected person's relationship with the Group	Nature of the connected transaction with the Group
Shaanxi Automotive (and its associates) (note 7)	Shaanxi Zhongqi (note 2), Hande Axle (note 3), Jinding (note 4), Shaanxi Import and Export (note 5), Tiangua (note 6) and Weichai Freshen Air (note 1) (as the case may be)	Holder of 49% of the equity of Shaanxi Zhongqi	Purchase of parts and components of vehicles, scrap steel and related products by Shaanxi Zhongqi (and its subsidiaries) and Weichai Freshen Air (as the case may be) from Shaanxi Automotive (and its associates)

Notes:

1. *Weichai After-sales Services, Weichai Reproduction and Weichai Freshen Air are wholly-owned subsidiaries of the Company.*
2. *Shaanxi Zhongqi is a 51% subsidiary of the Company.*
3. *Hande Axle is held as to approximately 3.06% by the Company and as to approximately 94% by Shaanxi Zhongqi.*
4. *Jinding is held as to approximately 95.76% by Shaanxi Zhongqi and as to approximately 4.24% by Hande Axle.*
5. *Shaanxi Import and Export is a wholly-owned subsidiary of Shaanxi Zhongqi.*
6. *Tiangua is a wholly-owned subsidiary of Shaanxi Zhongqi.*
7. *As more particularly described in the section headed "II.B. TAGC Continuing Connected Transaction Continuing — Connected Transactions between Shaanxi Zhongqi (and its subsidiaries) and Shaanxi Automotive (and its associates)" in this circular.*

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

A. Weichai Continuing Connected Transactions

Details of the relevant Weichai Continuing Connected Transactions

		Proposed New Caps		
		For the year ending 31 December 2018 RMB	For the year ending 31 December 2019 RMB	For the year ending 31 December 2020 RMB
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	2,600,000,000 [#]	3,000,000,000 [#]	3,500,000,000 [#]
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	5,400,000,000 [#]	6,300,000,000 [#]	7,000,000,000 [#]

B. TAGC Continuing Connected Transaction

Details of the relevant TAGC Continuing Connected Transaction

		Proposed New Caps		
		For the year ending 31 December 2017 RMB	For the year ending 31 December 2018 RMB	For the year ending 31 December 2019 RMB
	Purchase of parts and components of vehicles, scrap steel and related products and labour services by Shaanxi Zhongqi (and its subsidiaries) and Weichai Freshen Air (as the case may be) from Shaanxi Automotive (and its associates)	7,200,000,000 [#]	8,500,000,000 [#]	9,100,000,000 [#]

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Notes:

1. Where a New Cap is marked “#”, that means the proposed New Caps for the relevant Continuing Connected Transactions (i) exceed the 5% Threshold and are subject to the approval by the Independent Shareholders under the Listing Rules; or (ii) are subject to the approval by the Independent Shareholders pursuant to the Shenzhen Listing Rules (as the case may be).
2. For the purposes of ascertaining whether a Continuing Connected Transaction will exceed the 5% Threshold, the transactions under paragraphs A.1 and 2 have been aggregated pursuant to the requirements of Chapter 14A of the Listing Rules, considering that a substantial portion of the products sold by the Group to Weichai Westport pursuant to the transaction under paragraph A.1 are purchased by the Group pursuant to the transaction under paragraph A.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 A.1 and 2 above have also been aggregated with the PRC Continuing Connected Transactions.

Details of the Continuing Connected Transactions and the relevant supplemental agreements

A. Weichai Continuing Connected Transactions

The Company and its subsidiaries

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

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

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

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

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 51% by Weichai Holdings, a substantial Shareholder of the Company. Accordingly, Weichai Westport is a connected person of the Company.

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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 (as supplemented by the supplemental agreement dated 8 December 2014)

Date: 14 July 2017

Parties:

1. (a) The Company
(b) Weichai After-sales Services
(c) Weichai Reproduction
(d) Weichai Freshen Air; and
2. Weichai Westport

Term: 1 January 2018 to 31 December 2020

Other terms and details:

Pursuant to the Weichai Westport Supply Agreement (as supplemented by the abovementioned supplemental agreement but prior to the entering into of this latest Supplemental Agreement), each of the Company, Weichai After-sales Services 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 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. 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 After-sales Services, Weichai Reproduction and Weichai Freshen Air (and/or other associates of the Company) shall supply certain base engines, gas engine parts, utility and labour services, technology development services and related products and services to Weichai Westport, on the same terms for a term from 1 January 2018 to 31 December 2020, upon the expiry of which the parties may extend the term for three years on a mutually agreed basis. 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 (offered for sale by

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independent third parties) 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 quarterly basis and make adjustments where necessary. Save as set out herein, all other terms of the Weichai Westport Supply Agreement (as supplemented by the abovementioned supplemental agreement but prior to the entering into of this latest Supplemental Agreement) as set out above remain unchanged. The Directors are of the view that the abovementioned methods and procedures under the pricing policies can ensure that this Continuing Connected Transaction is conducted on normal commercial terms 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 2017 for this Continuing Connected Transaction:

	Year ended 31 December 2015 RMB	Year ended 31 December 2016 RMB	Year ending 31 December 2017 RMB
Existing Cap	3,100,000,000	3,500,000,000	3,900,000,000

The table below summarises the actual transaction amounts involved for each of the two years ended 31 December 2016 (audited) and the 6 months ended 30 June 2017 (unaudited) for this Continuing Connected Transaction:

	Year ended 31 December 2015 RMB	Year ended 31 December 2016 RMB	6 months ended 30 June 2017 RMB
Actual transaction amount	456,185,388	488,439,091	1,010,819,161

The Company estimates that the transaction amount of this Continuing Connected Transaction for the three years ending 31 December 2020 shall not exceed RMB2,600,000,000, RMB3,000,000,000 and RMB3,500,000,000 respectively, and the same have been accordingly set as the proposed New Caps for this Continuing Connected Transaction.

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 line with the increase in demand for gas engines and relevant products driven by the growth of the heavy-duty trucks market in the PRC in 2017 and the national policies which promote the use of gas engines, the transaction amount for the Continuing Connected Transaction under this sub-section has increased significantly during the first

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six months of 2017 compared to the full years of 2015 and 2016, respectively. 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 2020, 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 (including 《加快推進天然氣利用的意見》 (“Opinions on Accelerating the Use of Natural Gas”) and 《能源發展“十三五”規劃》 (發改能源[2016]2744號) (“National Energy Administration on Issuing the 13th Five-year Plan for Energy Development” (Fagainengyuan [2016] no. 2744) promulgated by the National Development and Reform Commission (國家發展改革委員會) of the PRC which promote the development of vehicles and ships with gas engines and/or the use of natural gas) and the Group's development plans (which are expected to expand the business of the gas engines in line with the State policies) 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 base engines, gas engine parts, utility and labour services, technology development services and related products and services required by Weichai Westport, which is expected to increase by approximately 10%, 15% and 15% in each of the three years ending 31 December 2020, respectively, (iii) the average unit prices of such base engines, gas engine parts and related products, which are expected to remain steady in the three years ending 31 December 2020; and (iv) the expected transaction amount of this Continuing Connected Transaction for the three years ending 31 December 2020 taking into account a buffer of 20% (considering the periodical development and fluctuation in the industry). 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 15.38% and 16.67% for each of the two years ending 31 December 2020, 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 2020:

	For the year ending 31 December 2018 RMB	For the year ending 31 December 2019 RMB	For the year ending 31 December 2020 RMB
New Cap	2,600,000,000	3,000,000,000	3,500,000,000

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

Since this Continuing Connected Transaction for the three years ending 31 December 2020 (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, this Continuing Connected Transaction has 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 (as supplemented by the supplemental agreement dated 8 December 2014)

Date: 14 July 2017

Parties:

1. (a) The Company
(b) Weichai Reproduction
(c) Weichai After-sales Services; and
2. Weichai Westport

Term: 1 January 2018 to 31 December 2020

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Other terms and details:

Pursuant to the Weichai Westport Purchase Agreement (as supplemented by the abovementioned supplemental agreement but prior to the entering into of this latest Supplemental Agreement), each of the Company, Weichai Reproduction and Weichai After-sales Services 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 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. 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 After-sales Services 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 2018 to 31 December 2020, upon the expiry of which the parties may extend the term for three years on a mutually agreed basis. 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 (offered for sale by independent third parties) 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 quarterly basis and make adjustments where necessary. Save as set out herein, all other terms of the Weichai Westport Purchase Agreement (as supplemented by the abovementioned supplemental agreement but prior to the entering into of this latest Supplemental Agreement) as set out above remain unchanged. The Directors are of the view that the abovementioned methods and procedures under the pricing policies can ensure that this Continuing Connected Transaction is conducted on normal commercial terms 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 2017 for this Continuing Connected Transaction:

	Year ended 31 December 2015 RMB	Year ended 31 December 2016 RMB	Year ending 31 December 2017 RMB
Existing Cap	5,300,000,000	5,600,000,000	6,000,000,000

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The table below summarises the actual transaction amounts involved for each of the two years ended 31 December 2016 (audited) and the 6 months ended 30 June 2017 (unaudited) for this Continuing Connected Transaction:

	Year ended 31 December 2015 RMB	Year ended 31 December 2016 RMB	6 months ended 30 June 2017 RMB
Actual transaction amount	1,032,309,947	959,290,002	2,052,491,000

The Company estimates that the transaction amount of this Continuing Connected Transaction for the three years ending 31 December 2020 shall not exceed RMB5,400,000,000, RMB6,300,000,000 and RMB7,000,000,000 respectively, and the same have been accordingly set as the proposed New Caps for this Continuing Connected Transaction.

As disclosed in the sub-section headed A.1 above, pursuant to the Weichai Continuing Connected Transaction under such sub-section, the Group sold certain base engines, gas engine parts and related products to Weichai Westport. Such products are then 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 line with the growth of the heavy-duty trucks market in the PRC in 2017 and the national policies which promote the use of gas engines, the demand for gas engines and relevant products has increased and accordingly, the transaction amount for the Continuing Connected Transaction under this sub-section has increased significantly during the first six months of 2017 compared to the full years of 2015 and 2016, respectively. 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 2020, 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 (including 《加快推進天然氣利用的意見》 (“Opinions on Accelerating the Use of Natural Gas”) and 《能源發展“十三五”規劃》(發改能源[2016]2744號) (“National Energy Administration on Issuing the 13th Five-year Plan for Energy Development” (Fagainengyuan [2016] no. 2744) promulgated by the National Development and Reform Commission (國家發展改革委員會) of the PRC which promote the development of vehicles and ships with gas engines and/or the use of natural gas) and the Group's development plans (which are expected to expand the business of the gas engines in line with the State policies) which are expected to be favourable to the market of the Group's gas engines.

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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, which is expected to increase by approximately 10%, 15% and 15% in each of the three years ending 31 December 2020; (iii) the average unit prices of such gas engines, gas engine parts and related products, which are expected to remain steady in the three years ending 31 December 2020; and (iv) the expected transaction amount of this Continuing Connected Transaction for the three years ending 31 December 2020 taking into account a buffer of 20% (considering the periodical development and fluctuation in the industry). 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 16.67% and 11.11% for each of the two years ending 31 December 2020, 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 2020:

	For the year ending 31 December 2018 RMB	For the year ending 31 December 2019 RMB	For the year ending 31 December 2020 RMB
New Cap	5,400,000,000	6,300,000,000	7,000,000,000

As the highest percentage ratio calculated in accordance with the Listing Rules for this Continuing Connected Transaction for the three years ending 31 December 2020 (when aggregated with the proposed New Caps for the same period under sub-section A.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 Listing Rules.

Since this Continuing Connected Transaction for the three years ending 31 December 2020 (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.

Pursuant to the requirements of the Shenzhen Listing Rules, this Continuing Connected Transaction has 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.

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B. TAGC Continuing Connected Transaction

Continuing connected transaction between Shaanxi Zhongqi (and its subsidiaries) and Shaanxi Automotive (and its associates)

Shaanxi Zhongqi and its subsidiaries

Shaanxi Zhongqi is a 51% subsidiary of the Company and is principally engaged in the manufacture and sale of heavy-duty vehicles and parts and components of heavy-duty vehicles.

Hande Axle is held as to approximately 3.06% by the Company and as to approximately 94% by Shaanxi Zhongqi. Hande Axle is principally engaged in the research and development, production, sale and services of vehicle axles and their parts and components.

Jinding is held as to approximately 95.76% by Shaanxi Zhongqi and as to approximately 4.24% by Hande Axle and is principally engaged in the research and development, production and processing of casting products.

Shaanxi Import and Export is a wholly-owned subsidiary of Shaanxi Zhongqi and is principally engaged in the import and export of vehicles and their parts and components.

Tiangua is a wholly-owned subsidiary of Shaanxi Zhongqi and is principally engaged in the conversion of vehicles and the sale of vehicles and their parts and components.

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.

Shaanxi Automotive and its associates

Shaanxi Automotive is engaged in investment holding. Shaanxi Automotive is a substantial shareholder of Shaanxi Zhongqi (which is a subsidiary of the Company) and is accordingly a connected person of the Company.

Shaanxi Wanfang is a wholly-owned subsidiary of Shaanxi Automotive and is accordingly an associate of Shaanxi Automotive and a connected person of the Company. Shaanxi Wanfang is principally engaged in the sale of parts and components of vehicles.

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Shaanxi Huazhen is wholly-owned by Shaanxi Automotive and is accordingly an associate of Shaanxi Automotive and a connected person of the Company. Shaanxi Huazhen is principally engaged in the sale of vehicles and parts and components of vehicles.

Shaanxi Lantong is held as to approximately 59.99% by Shaanxi Automotive and is accordingly an associate of Shaanxi Automotive and a connected person of the Company. Shaanxi Lantong is principally engaged in the sale of parts and components of vehicles.

Shaanxi Tongchuang is held as to approximately 50% by Shaanxi Automotive and is accordingly an associate of Shaanxi Automotive and a connected person of the Company. Shaanxi Tongchuang is principally engaged in the sale of parts and components of vehicles.

Shaanxi Tongli is held as to approximately 99% by Shaanxi Automotive and is accordingly an associate of Shaanxi Automotive and a connected person of the Company. Shaanxi Tongli is principally engaged in the sale of special purpose vehicles and parts and components of vehicles.

Wenzhou Yunding is held as to approximately 30% by Shaanxi Automotive and is accordingly an associate of Shaanxi Automotive and a connected person of the Company. Wenzhou Yunding is principally engaged in the research and development, manufacture, sale and services of parts and components of vehicles.

Changsha Huantong is held as to approximately 49% by Shaanxi Automotive and is accordingly an associate of Shaanxi Automotive and a connected person of the Company. Changsha Huantong is principally engaged in the development and sale of vehicles, automobile chassis and parts and components of vehicles.

Xunyang Baotong is held as to approximately 61.61% by Shaanxi Automotive and is accordingly an associate of Shaanxi Automotive and a connected person of the Company. Xunyang Baotong is principally engaged in the manufacture and sale of parts and components of vehicles.

Yanan Vehicle is held as to approximately 51% by Shaanxi Automotive and is accordingly an associate of Shaanxi Automotive and a connected person of the Company. Yanan Vehicle is principally engaged in the manufacture, research and development, and sale of special purpose vehicles.

Shaanxi Fangyuan is a wholly-owned subsidiary of Shaanxi Automotive and is accordingly an associate of Shaanxi Automotive and a connected person of the Company. Shaanxi Fangyuan is principally engaged in the manufacture and sale of parts and components of vehicles.

Shaanqi Holdings holds approximately 61.22% of the equity interest in Shaanxi Automotive and is accordingly an associate of Shaanxi Automotive and a connected person of the Company. Shaanqi Holdings is principally engaged in vehicle industry, business investment, investment management and consultancy.

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Shaanqi Industry is held as to approximately 60.09% by Shaanqi Holdings and is accordingly an associate of Shaanxi Automotive and a connected person of the Company. Shaanqi Industry is principally engaged in project investment, asset management, logistic service and management, venue rental, investment management and consultancy.

Baoji Huashan is held as to approximately 58.42% by Shaanqi Industry and is accordingly an associate of Shaanxi Automotive and a connected person of the Company. Baoji Huashan is principally engaged in the manufacture and sale of special purpose vehicles and their parts and components.

Dongfeng Axle is held as to approximately 45.73% by Shaanqi Industry and is accordingly an associate of Shaanxi Automotive and a connected person of the Company. Dongfeng Axle is principally engaged in the sale of parts and components of vehicles.

Xian Lande is wholly-owned by Shaanxi Automotive and is accordingly an associate of Shaanxi Automotive and a connected person of the Company. Xian Lande is principally engaged in the development of new energy vehicle technology, technical consultation, technical service, technology transfer, production and sale of vehicle parts, and sale of vehicles (excluding cars).

Shaanxi Dongming is held as to approximately 63.89% by Shaanxi Automotive and is accordingly an associate of Shaanxi Automotive and a connected person of the Company. Shaanxi Dongming is principally engaged in the research and development, production and sale of vehicle parts and components, electric axles, low-speed electric vehicles and sale of heavy-duty vehicles.

Huazhen Trading is wholly-owned by Shaanqi Industry and is accordingly an associate of Shaanxi Automotive and a connected person of the Company. Huazhen Trading is principally engaged in logistic management and service, and the sale of scrap metals and non-metal recycle resources.

Zhongjiao Tianjian is indirectly held as to 65% by Shaanxi Automotive and is accordingly an associate of Shaanxi Automotive and a connected person of the Company. Zhongjiao Tianjian is principally engaged in development, transfer and consultation of and for networking technology for vehicles; information service for road traffic and transportation; logistics information service; sale of electronic products and communication equipment; computer system integration; development of software; development of scientific research projects and transfer of technological results.

Deyin Logistic is an indirect wholly-owned subsidiary of Shaanxi Automotive and is accordingly an associate of Shaanxi Automotive and a connected person of the Company. Deyin Logistic is principally engaged in transportation of general goods, (container) transportation, transportation agency within the PRC; sale of commercial vehicles and passenger vehicles of less than 9 seats, automobile accessories, lubricating oil, construction materials, metal materials, chemical products (other than inflammable and explosive hazardous chemical products) and hardware and electric products; leasing of vehicles, construction machinery and self-owned equipment.

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Tonghui Logistic is an indirect subsidiary of Shaanxi Automotive and is accordingly an associate of Shaanxi Automotive and a connected person of the Company. Tonghui Logistic is principally engaged in distribution and warehousing of goods (other than hazardous items), transportation of general goods; transportation agency; consultation for logistics information; logistics and packaging; sale of automobile accessories; processing, assembling and repairing of machinery (other than special equipment).

Purchase of parts and components of vehicles, scrap steel and related products and labour services by Shaanxi Zhongqi (and its subsidiaries) from Shaanxi Automotive (and its associates)

Agreement: Supplemental agreement to the parts and components and scrap steel purchase agreement ("**Shaanxi Zhongqi Purchase Agreement**") dated 1 August 2007 (as supplemented by the supplemental agreements dated 27 November 2008, 23 August 2010, 29 August 2013, 29 April 2014, and 30 August 2016, respectively)

Date: 14 July 2017

Parties:

1.
 - (a) Shaanxi Zhongqi
 - (b) Hande Axle
 - (c) Jinding
 - (d) Shaanxi Import and Export
 - (e) Tiangua
 - (f) Weichai Freshen Air
2.
 - (a) Shaanxi Automotive
 - (b) Shaanqi Holdings
 - (c) Shaanqi Industry
 - (d) Shaanxi Wanfang
 - (e) Shaanxi Huazhen
 - (f) Shaanxi Lantong
 - (g) Shaanxi Tongchuang
 - (h) Baoji Huashan
 - (i) Shaanxi Fangyuan
 - (j) Wenzhou Yunding
 - (k) Changsha Huantong
 - (l) Xunyang Baotong
 - (m) Dongfeng Axle
 - (n) Xian Lande
 - (o) Shaanxi Tongli
 - (p) Shaanxi Dongming
 - (q) Yanan Vehicle
 - (r) Huazhen Trading
 - (s) Deyin Logistic
 - (t) Tonghui Logistic
 - (u) Zhongjiao Tianjian

Term: 1 January 2017 to 31 December 2019

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Other terms and details:

Pursuant to the Shaanxi Zhongqi Purchase Agreement dated 1 August 2007 (as supplemented by the abovementioned supplemental agreements but prior to the entering into of this latest Supplemental Agreement), each of Shaanxi Zhongqi and its subsidiaries (as set out above) (and/or other subsidiaries of Shaanxi Zhongqi) (as the case may be) has purchased certain parts and components of vehicles, scrap steel and related products and labour services (as the case may be) from Shaanxi Automotive and its associates (as set out in the announcement of the Company dated 30 August 2016 (and/or other associates of Shaanxi Automotive) (as the case may be), at market prices and settled by the relevant parties every one to three months, for a term ending 31 December 2019, upon the expiry of the same, the parties shall have an option to renew the agreement for a term of three years on a mutually agreed basis.

Pursuant to this latest Supplemental Agreement, each of Shaanxi Zhongqi and its subsidiaries (as set out above) (and/or other subsidiaries of Shaanxi Zhongqi) and Weichai Freshen Air (as the case may be) shall purchase certain parts and components of vehicles, scrap steel and related products and labour services (as the case may be) from Shaanxi Automotive and its associates (as set out above) (and/or other associates of Shaanxi Automotive) (as the case may be) on the same terms for a term of three years ending 31 December 2019, upon the expiry of which the parties may renew the term for another three years on a mutually agreed basis. Save as set out herein, all other terms of the Shaanxi Zhongqi Purchase Agreement (as supplemented by the abovementioned supplemental agreements but prior to the entering into of this latest Supplemental Agreement) as set out above remain unchanged.

The purchase price of the said products is determined according to the following mechanism: through market analysis of the products (including reviewing the prices of not less than three products of the same category purchased from independent third parties in the market in general) by the specific departments of the purchaser, a proposal on the purchase price, after an analysis regarding the reasonableness of the sale price taking into account the cost of materials, labour cost and processing cost (the Company shall conduct an analysis on such costs in respect of the products and compare the same against the quote from the relevant seller), shall be submitted to the price management department of the purchaser for approval. After commercial negotiations between the purchaser and the seller on the basis of the said proposal, final sale price shall be determined based on arm's length negotiations between the purchaser and seller. The said price management department shall review the reasonableness of the sale price on a regular basis and make adjustments (where necessary) (such department shall review the prices of materials in the first quarter of a year during which new purchase orders are entered into, and thereafter, review such prices on a monthly basis). The Directors are of the view that the abovementioned methods and procedures under the pricing policies can ensure that this Continuing Connected Transaction is conducted on normal commercial terms and not prejudicial to the interests of the Company and its minority Shareholders.

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

	2017	2018	2019
	<i>RMB</i>	<i>RMB</i>	<i>RMB</i>
Existing Cap	4,950,000,000	5,200,000,000	5,460,000,000

The table below summarises the actual aggregate transaction amounts involved for the two years ended 31 December 2016 (audited) and the 6 months ended 30 June 2017 (unaudited) for the Continuing Connected Transaction set out in this sub-section:

	Year ended	6 months
	31 December	ended
	2015	30 June
	<i>RMB</i>	2017
	<i>RMB</i>	<i>RMB</i>
Actual transaction amount	1,394,926,062	4,153,932,561
		3,129,248,751

The implementation of 《汽車、掛車及汽車列車外廓尺寸、軸荷及質量限值》 (Limits of Dimensions, Axle Load and Masses for Motor Vehicles, Trailers and Combination Vehicles) (GB1589-2016) standard and the new anti-overloading policies in the PRC, and the State's macroeconomic policies and the rapid growth of fixed assets and infrastructure investments in the PRC in recent years have stimulated the development of the heavy-duty vehicles industry in the PRC.

Since Shaanxi Zhongqi and its subsidiaries set out above are principally engaged in the manufacture and sale of heavy-duty vehicles and related products, the Directors believe that such businesses will be benefited by the above. The Directors believe that the demand for the products of Shaanxi Zhongqi and its subsidiaries and in view of the transaction amount of this Continuing Connected Transaction for the first six months of 2017, which has increased significantly compared to the full years of 2015 and 2016 (due to the increase in sales of light-weight tractors driven by the implementation of the abovementioned GB1589-2016 standard and national policies, the manufacturing of new category of trucks by the Group, increase in sales of the Group's high-technology dump trucks, etc.), the volume of parts and components required from Shaanxi Automotive and/or its associates for the production of such products, will increase substantially for the three years ending 31 December 2019 as compared to the transaction amounts for the last two years.

The Company estimates that the transaction amounts in respect of the Continuing Connected Transaction set out in this sub-section B will not exceed RMB7,200,000,000, RMB8,500,000,000 and RMB9,100,000,000, respectively, for each of the three years ending 31 December 2019 and such amounts have accordingly been set as the New Caps for this Continuing Connected Transaction.

LETTER FROM THE BOARD

The above proposed New Caps have been estimated by the Company primarily based on (i) the relevant historical transaction amounts; (ii) the estimated increase in the volume of the parts and components of vehicles to be purchased by Shaanxi Zhongqi and its subsidiaries (as the case may be) in view of the implementation of the Thirteenth Five-year Plan and other national standard and policies as set out above, which is expected to increase by approximately 7.69% and 7.14% in each of the two years ending 31 December 2019; and (iii) the expected cost of production, which is expected to increase by approximately 10% in the year of 2018 and remain steady in 2019; and (iv) the expected transaction amount of the TAGC Continuing Connected Transaction for the three years ending 31 December 2019 taking into account a buffer of 20% (considering the periodical development and fluctuation in the industry). 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 parts and components of vehicles, scrap steel and related products and labour services will increase by approximately 18.06% and 7.06% for each of the years ending 31 December 2018 and 2019, respectively.

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

	2017	2018	2019
	<i>RMB</i>	<i>RMB</i>	<i>RMB</i>
New Cap	7,200,000,000	8,500,000,000	9,100,000,000

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

Since this TAGC Continuing Connected Transaction for the three years ending 31 December 2019 is an Exempt Continuing Connected Transaction, this Supplemental Agreement is not subject to the approval of the independent Shareholders under the Listing Rules.

However, since the TAGC Continuing Connected Transaction (and the relevant Supplemental Agreement) are subject to the approval of the Independent Shareholders pursuant to the Shenzhen Listing Rules, the same are conditional upon such approval at the EGM.

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

The Company is principally engaged in the research and development, manufacture and sale of high-speed heavy-duty diesel engines. In respect of the Weichai Continuing Connected Transactions, 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 relationship with Weichai Westport, thereby generating synergy potential and mutual economic benefits between the Group and Weichai Westport. The Board considers that the Weichai 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.

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

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

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

At the meeting of the Board on 14 July 2017 approving, *inter alia*, the Continuing Connected Transactions, Mr. Yuan Hongming (an executive Director) has abstained from voting on the resolution in respect of the TAGC Continuing Connected Transaction for the reason of his position in the relevant connected person. Save as disclosed above, no other Directors have any material interest in the Continuing Connected Transactions.

Listing Rules implications

As the highest percentage ratio calculated in accordance with the Listing Rules for the Weichai Continuing Connected Transactions for the three years ending 31 December 2020 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 Listing Rules.

Further, since (i) Shaanxi Automotive is regarded as a connected person of the Company at subsidiary level; (ii) the Board (including all the independent non-executive Directors) has approved the TAGC Continuing Connected Transaction; and (iii) the independent non-executive Directors have confirmed that the terms of the TAGC Continuing Connected Transaction and the relevant New Caps are fair and reasonable, on normal commercial terms or better and in the interests of the Company and the Shareholders as a whole, the TAGC Continuing Connected Transaction is subject to the reporting and announcement requirements but is exempt from circular, independent financial advice and shareholders' approval requirements pursuant to Rule 14A.101 of the Listing Rules. However, the TAGC Continuing Connected Transaction is subject to the approval of the Independent Shareholders pursuant to the Shenzhen Listing Rules.

IV. PRC CONTINUING CONNECTED TRANSACTIONS

As set out in announcement of the Company dated 8 December 2014 and the circular of the Company dated 7 January 2015, in addition to the Weichai Continuing Connected Transactions, certain transactions which have been conducted between the Group and Weichai Westport in the ordinary course of business are set out under this section (the **"PRC Continuing Connected Transactions"**). On 14 July 2017, the Group has entered into the PRC Supplemental Agreements to (i) 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 the supplemental agreements dated 28 November 2013 and 8 December 2014, respectively); and (ii) 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 (as supplemented by the supplemental agreement dated 8 December 2014), and shall apply for the new caps for such PRC Continuing Connected Transactions for the three years ending 31 December 2020. The proposed new caps for each of such transactions for the term from 1 January 2018 to 31 December 2020 do not exceed the 0.1% Threshold, and, accordingly, are not subject to the reporting, announcement and independent shareholders' approval requirements of the 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 Weichai Continuing Connected Transactions, and such transactions (including the relevant agreements) are subject to the approval of the Independent Shareholders. For further details of the PRC Continuing Connected Transactions and the PRC Supplemental Agreements, please refer to the announcement of the Company dated 14 July 2017 on the website of The Shenzhen Stock Exchange.

LETTER FROM THE BOARD

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 51% by Weichai Holdings, a substantial shareholder of the Company	(a) Provision of logistics and storage services by Weichai Logistics (and/or its associates) to Weichai Westport (b) Leasing of factory buildings by the Company to Weichai Westport

Note:

1. Weichai Logistics is a wholly-owned subsidiary of the Company.

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

Details of the relevant PRC Continuing Connected Transaction with Weichai Westport

		Proposed new caps		
		For the year ending 31 December 2018	For the year ending 31 December 2019	For the year ending 31 December 2020
		RMB	RMB	RMB
(1)	Provision of logistics and storage services by Weichai Logistics (and its associates) to Weichai Westport	9,500,000	12,000,000	16,000,000
(2)	Leasing of factory buildings by the Company to Weichai Westport	9,000,000	9,000,000	9,000,000

LETTER FROM THE BOARD

Details of the PRC Continuing Connected Transactions and the relevant agreements

1. *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 the supplemental agreements dated 28 November 2013 and 8 December 2014, respectively)

Date: 14 July 2017

Parties: 1. Weichai Logistics
2. Weichai Westport

Term: 1 January 2018 to 31 December 2020

Weichai Logistics is a wholly-owned subsidiary of the Company and is principally engaged in the provision of logistics and storage services.

Pursuant to the PRC Supplemental Agreement to the Weichai Westport Logistics Agreement, Weichai Logistics (and/or 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 2018 to 31 December 2020, upon the expiry of which the parties may extend the term for three years on a mutually agreed basis.

The actual transaction amounts involved for the two years ended 31 December 2016 (audited) and for the 6 months ended 30 June 2017 (unaudited) for the provision of logistics and storage services by Weichai Logistics to Weichai Westport were RMB3,572,548, RMB2,268,985 and RMB2,548,653, respectively.

Taking into account the implementation of the Thirteenth Five-year Plan and the expected increase in the transaction amount of this PRC Continuing Connected Transaction by approximately 30% in each of the three years ending 31 December 2020, the Company estimates that the transaction amount for the three years ending 31 December 2020 shall not exceed RMB9,500,000, RMB12,000,000 and RMB16,000,000 respectively, and the same have been accordingly set as the proposed new caps for this PRC Continuing Connected Transaction.

LETTER FROM THE BOARD

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 2020:

	For the year ending 31 December 2018 RMB	For the year ending 31 December 2019 RMB	For the year ending 31 December 2020 RMB
New cap	9,500,000	12,000,000	16,000,000

The proposed new caps for this PRC Continuing Connected Transaction for the term from 1 January 2018 to 31 December 2020 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 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 (as supplemented by a supplemental agreement dated 8 December 2014)

Date: 14 July 2017

Parties:

1. The Company
2. Weichai Westport

Term: 1 January 2018 to 31 December 2020

Pursuant to the PRC Supplemental Agreement to the Weichai Westport Leasing Agreement, the Company has agreed to lease certain factory buildings to Weichai Westport for a term from 1 January 2018 to 31 December 2020. 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 two years ended 31 December 2016 (audited) and for the 6 months ended 30 June 2017 (unaudited) for the leasing of the said factory buildings by the Company to Weichai Westport were RMB10,552,660, RMB7,788,751 and RMB3,908,257, respectively.

LETTER FROM THE BOARD

In line with the rentals under this PRC Supplemental Agreement, the Company estimates that the transaction amount for the three years ending 31 December 2020 shall not exceed RMB9,000,000, RMB9,000,000 and RMB9,000,000 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 2020:

	For the year ending 31 December 2018 RMB	For the year ending 31 December 2019 RMB	For the year ending 31 December 2020 RMB
New cap	9,000,000	9,000,000	9,000,000

The proposed new caps for this PRC Continuing Connected Transaction for the term from 1 January 2018 to 31 December 2020 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 Listing Rules. Further, this PRC Continuing Connected Transaction is of a different nature from and carried out independently of the Continuing Connected Transactions. However, pursuant to the requirements of the Shenzhen Listing Rules, all the PRC Continuing Connected Transactions have been aggregated with the Continuing Connected Transactions and are subject to the approval of the Independent Shareholders.

V. EGM

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

The EGM Notice setting out the resolutions in respect of, *inter alia*, the relevant New Caps and the Supplemental Agreements in respect of the Continuing Connected Transactions and the PRC Continuing Connected Transactions has been despatched on 14 July 2017. No Shareholder is required to abstain from voting in respect of the resolutions concerning the Weichai Continuing Connected Transactions and the PRC Continuing Connected Transactions other than Weichai Holdings (which is the holder of 51% of the equity of Weichai Westport) and its associates (if any) (who held 1,345,905,600 A Shares, representing approximately 16.83% of the issued share capital of the Company as at the Latest Practicable Date). It is noted that although Mr. Tan Xuguang (the chairman of the Company and an executive Director) is also the chairman of Weichai Holdings and its holding company, Shandong Heavy Industry Group Co., Ltd., and Mr. Zhang Quan, Mr. Xu Xinyu and Mr. Sun Shaojun (all being executive Directors) are also directors of Weichai Holdings, none of such Directors is a director of or holds any equity interest in Weichai Westport. Accordingly, none of such Directors has any material interest in the

LETTER FROM THE BOARD

Weichai Continuing Connected Transactions and is required to abstain from voting on the same at the relevant Board meeting and the EGM. No Shareholder is required to abstain from voting in respect of the resolution concerning the TAGC Continuing Connected Transaction other than Mr. Yuan Hongming, an executive Director of the Company, for the reason of his position as the chairman of Shaanxi Automotive, and his associate (who in aggregate held 880 A Shares, representing approximately 0.000012% of the issued share capital of the Company as at the Latest Practicable Date) It is a requirement of the Listing Rules that the voting at the EGM must be taken by poll.

If you intend to attend the EGM, please complete and return the reply slip of the Company published on 14 July 2017 in accordance with the instructions printed thereon as soon as possible and in any event by no later than Thursday, 10 August 2017.

The proxy form for use at the EGM is published on 14 July 2017. Holders of A Shares may use the forms of proxy published by the Company on the website of the Shenzhen Stock Exchange instead. Whether or not you intend to be present at such meetings, you are requested to complete the forms of proxy in accordance with the instructions printed thereon and return the same to Computershare Hong Kong Investor Services Limited at 17M Floor, Hopewell Centre, 183 Queen's Road East, Wan Chai, Hong Kong (with respect to the holders of H Shares) or the Company's registered office at Capital Operation Department, 197, Section A, Fu Shou East Street, High Technology Industrial Development Zone, Weifang, Shandong Province, the PRC (postal code: 261061) (with respect to the holders of A Shares), no later than 24 hours before the time fixed for holding the EGM or any adjournment thereof. Completion and delivery of the form of proxy will not prevent you from attending and voting at the relevant meeting or any adjournment thereof if you so wish.

VI. RECOMMENDATIONS

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

LETTER FROM THE BOARD

The Independent Board Committee comprising the independent non-executive Directors (namely, Mr. Loh Yih, Mr. Zhang Zhong, Mr. Wang Gongyong, Mr. Ning Xiangdong and Mr. Li Hongwu) 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.

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)

11 August 2017

*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 11 August 2017) (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 – A. Weichai 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

Zhang Zhong
Independent
non-executive Director

Wang Gongyong
Independent
non-executive Director

Ning Xiangdong
Independent
non-executive Director

Li Hongwu
Independent
non-executive Director

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

TRINITY

Trinity Corporate Finance Limited

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

11 August 2017

To the Independent Board Committee and the Independent Shareholders of

Weichai Power Co., Ltd.

Dear Sirs,

NON-EXEMPT CONTINUING CONNECTED TRANSACTIONS

INTRODUCTION

We refer to our appointment to advise the Independent Board Committee and the Independent Shareholders in respect of the Non-exempt Continuing Connected Transactions, details of which are set out in the Letter from the Board (the “**Letter from the Board**”) in the Company’s circular dated 11 August 2017 (the “**Circular**”), of which this letter forms part. Terms used in this letter shall have the same meanings as those defined in the Circular unless the context otherwise requires.

On 14 July 2017, the Board announced that the Group has entered into the Supplemental Agreements in respect of the Continuing Connected Transactions, being the Weichai Continuing Connected Transactions and the TAGC Continuing Connected Transaction. As the highest percentage ratio calculated in accordance with the Listing Rules for the Weichai Continuing Connected Transactions for the three years ending 31 December 2020 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 Listing Rules.

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

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

BASIS OF OUR OPINION

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

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

We have not conducted any independent in-depth investigation into the business and affairs of the Group or any parties involved in the Weichai Continuing Connected Transactions.

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

PRINCIPAL FACTORS AND REASONS CONSIDERED

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

A. History and Background of the Company

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

During the financial year ended 31 December 2016, under the influence of a multitude of factors including the implementation of the Guobiao GB1589-2016 standard and the new anti-overloading policies, fostering of PPP (Public Private Partnership) projects and acceleration of infrastructural investments, the heavy-duty truck industry in the PRC realized substantial growth. The Company

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

reported sales of 198,000 units of heavy-duty truck engines (including Weichai Medium), representing a year-on-year growth of 67.8%. The Company maintained its leading position in the industry with its market share of 27%.

During the financial year ended 31 December 2016, under the influence of a multitude of factors including downturn in macro-economy conditions and volatility in overseas markets, there was a downturn in the overall passenger vehicles market in 2016. The Company's aggregate sales of engines for use in large and medium-sized passenger vehicles amounted to 22,000 units (including Weichai (Weifang) Medium-duty Diesel Engine Co., Ltd.), representing a year-on-year increase of 5.8%, and accounting for 11.3% of the market share of large-sized and medium-sized passenger vehicles.

The Group is also the largest supplier of diesel engines among major manufacturers of construction machinery (mainly wheel loaders) with a load capacity of 5 tonnes in the PRC. During the financial year ended 31 December 2016, the Company sold a total of 32,000 units of engines for wheel loaders with a load capacity of 5 tonnes, representing a year-on-year increase of 19.4%. The Company continued to maintain a leading position in the market of wheel loaders with a load capacity of 5 tonnes with a market share of 76.2%.

Benefiting from the growth of the forklift truck industry and the leading position of KION Group AG ("KION"), an overseas subsidiary of the Company in electric forklift truck and the European market, the Group reported an increase of orders for forklift trucks from approximately 165,800 units last year to approximately 178,300 units in 2016, representing a year-on-year growth of approximately 7.5%. Upon completion of the acquisition of Dematic, a globally leading automated logistics supplier, KION is more capable of providing customers with comprehensively intelligent supply chain solutions. Before elimination of intra-group sales, the forklift trucks production, warehousing technology services and supply chain solution services business contributed sales revenue of approximately RMB41,063 million to the Group during this period.

During the financial year ended 31 December 2016, the Group sold approximately 82,000 units of heavy-duty trucks, representing an increase of approximately 46.9% from approximately 56,000 units in the corresponding period in 2015, and 501,000 units of heavy-duty gear boxes, representing an increase of approximately 23.2% compared to the approximately 407,000 units of heavy-duty gear boxes sold in the corresponding period in 2015. Before elimination of intra-group sales, the sales of heavy-duty trucks and heavy-duty gear boxes contributed approximately RMB24,360 million and RMB7,589 million to the Group's revenue respectively.

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 sales of engine parts and components and other truck parts and components such as spark plugs, axles, chassis, air-conditioner compressors, hydraulic controlling parts, etc. During the financial year ended 31

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

December 2016, the Group's sales of parts, components of engines and trucks and hydraulic controlling parts increased by approximately RMB40 million from approximately RMB3,524 million in the corresponding period of last year to approximately RMB3,564 million, representing a year-on-year increase of approximately 1.1%.

B. Financial Performance of the Company

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

	Year ended 31 December		
	2014	2015	2016
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Revenue	79,637,162	74,167,741	93,183,521
Profit for the financial year	5,718,204	2,198,114	3,596,254
Profit for the financial year attributable to equity holders of the Company	5,002,427	1,412,273	2,441,189

With reference to the above table, the revenue for the year ended 31 December 2015 and 31 December 2016 of the Group amounted to approximately RMB74.2 billion and RMB93.2 billion, representing a year-on-year decrease of approximately 6.9% and a year-on-year increase of approximately 25.6% respectively. This was primarily attributable to the substantial decrease in the sales of the heavy-duty truck market in China in 2015 and the substantial rebound of the heavy-duty truck market in China in 2016.

According to the annual report for the year ended 31 December 2015, the construction machinery industry was under the difficult mission of decapacitizing and eliminating excessive inventories. Although the global economy entered a stage of low growth and low expansion, with weak recovery in developed economies and slowdown in economic growth in emerging markets, the overall economic performance of China was stable and sustained a trend of high-to-medium speed growth, making progress and demonstrating positivity amidst stability.

According to the annual report for the year ended 31 December 2016, the reporting revenue for the year ended 31 December 2016 exceeded the expectation because the Company has an ongoing commitment to serving customer needs and expediting the structural adjustments and stepping up its investments in research and development. The Company's effective cost control has also given its products greater competitive advantages in terms of cost, technology and quality. Meanwhile, the Group steadily pushed forward its strategy of internationalization. Overseas businesses, which were in general positive, provided positive support for the overall business of the Group.

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

The Group's net profit increased by approximately 63.6% from approximately RMB2,198 million in the corresponding period of 2015 to approximately RMB3,596 million for the year ended 31 December 2016. During the Year, the net profit margin was approximately 3.9%, representing an increase of approximately 0.9 percentage points from approximately 3.0% recorded in the corresponding period in 2015. This was primarily attributable to the increase in the Group's revenue in general and the increase in the proportion of profit derived from China, under the recovery of the heavy-duty truck industry.

In 2016, China's fixed-asset investments (excluding agricultural households) reached RMB59.7 trillion, representing a year-on-year growth of 8.1%, a drop of 1.9 percentage points in growth rate year-on-year. The total planned investments for newly-commenced construction projects reached RMB49.3 trillion, representing a year-on-year growth of 20.9%, an increase of 15.4 percentage points in growth rate year-on-year. Investments in property development reached RMB10.3 trillion, representing a year-on-year growth of 6.9%, an increase of 5.9 percentage points in growth rate year-on-year. As such, the construction machinery industry rebounded from its trough and the trend of recovery was apparent.

The Company is cautiously optimistic about the development trend of its related industries. In 2017, it is expected that the Chinese heavy-duty truck market will attain a sales volume of 800,000 units, representing a year-on-year growth of 9.2%. The increase is mainly attributable to the following reasons. Firstly, the prompt implementation of Public Private Partnership projects and "mega infrastructure" projects worth RMB4.7 trillion, has increased the sources of demand for heavy-duty trucks. Secondly, the clean-up of the hazardous chemicals market, the tightened management over the measurement and overloading of trucks and the weighting of trucks in the licensing process accelerated the replacement of heavy-duty trucks. Thirdly, with the emergence of e-commerce logistical planning, the development of logistics industry will become more efficient and standardized, bringing huge opportunities to the heavy-duty truck industry. The engineering vehicles market is expected to recover steadily. The trend of highly efficient logistics and transportation services going high-end is becoming increasingly apparent. The sales volume of high-speed, standardized models will gradually increase, while the demand for high-emission, high-powered vehicles is also on the rise.

In 2017, buoyed by factors such as the investments in infrastructure and newly-commenced construction projects, and a stable demand for replacement vehicles, the construction machinery industry will continue to recover. Firstly, at the macro level, investments in public-private partnership projects are expected to remain strong, improving the likelihood of the implementation of such projects. The State is expected to step up its investments in the fields of transportation infrastructure, ranging from railway systems to urban rail transits. The mining industry can expect to realize short-term rebound. Secondly, at the industry level, the demand for replacement vehicles will remain stable, but the difficult mission of decapacitizing and eliminating excessive inventories lie ahead. Thirdly, at the export level, the state will proceed steadily in implementing the "One Belt and One

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

Road” policy. As the demand for high-end products in the economies in Europe and America keeps growing, there is room for recovery in foreign demand.

C. Principal Terms of the Supplemental Agreements in respect of the Weichai Continuing Connected Transactions

As mentioned above, the Group entered into Supplemental Agreements in respect of the Weichai Continuing Connected Transactions on 14 July 2017. The two Supplemental Agreements, Weichai Westport Supply Agreement and Weichai Westport Purchase Agreement, are entered into between the Group and Weichai Westport, which is a connected person of the Company, as explained below.

By way of background, the companies within the Group which are involved in the transaction include (except that Weichai Freshen Air is not involved in the Weichai Westport Purchase Agreement):

- (i) The Company which is principally engaged in the research and development, manufacture and sale of high-speed heavy-duty diesel engines and engine parts;
- (ii) Weichai After-sales Services which is a wholly-owned subsidiary of the Company and is principally engaged in the sale of parts and components of diesel engines;
- (iii) Weichai Reproduction which is a wholly-owned subsidiary of the Company and is principally engaged in the reproduction of parts and components of vehicles; and
- (iv) Weichai Freshen Air which 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 51% by Weichai Holdings, a substantial shareholder of the Company. Accordingly, Weichai Westport is a connected person of the Company.

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

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 (as supplemented by the supplemental agreement dated 8 December 2014)

Date: 14 July 2017

Parties:

1. (a) The Company
(b) Weichai After-sales Services
(c) Weichai Reproduction
(d) Weichai Freshen Air; and
2. Weichai Westport

Term: 1 January 2018 to 31 December 2020

Other terms and details:

Pursuant to the Weichai Westport Supply Agreement (as supplemented by the abovementioned supplemental agreement but prior to the entering into of this latest Supplemental Agreement), each of the Company, Weichai After-sales Services 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 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. 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 After-sales Services, Weichai Reproduction and Weichai Freshen Air (and/ or other associates of the Company) shall supply certain base engines, gas engine parts, utility and labour services, technology development services and related products and services to Weichai Westport, on the same terms for a term from 1 January 2018 to 31 December 2020, upon the expiry of which the parties may extend the term for three years on a mutually agreed basis.

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

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

- (i) a market analysis of specific products is performed by the market management department of the Company on a quarterly basis in general;
- (ii) a proposal on the price, which is formulated taking into account of an analysis of a number of factors (including the price of at least one to two relevant products (offered for sale by independent third parties) in the market in general, market share, order situation and performance of major competitors in the market), shall be submitted to the price management department of the Company for approval;
- (iii) the final price shall be determined based on arm's length negotiations between the parties; and
- (iv) the price management department shall review the reasonableness of the price on a quarterly basis and make adjustments where necessary.

Save as set out herein, all other terms of the Weichai Westport Supply Agreement (as supplemented by the abovementioned supplemental agreement but prior to the entering into of this latest Supplemental Agreement) as set out above remain unchanged. The Directors are of the view that the abovementioned methods and procedures under the pricing policies can ensure that this Continuing Connected Transaction is conducted on normal commercial terms and not prejudicial to the interests of the Company and the Independent Shareholders.

We have discussed with the Company and reviewed two samples of the market research and analysis conducted by the market management department of the Company, which included information such as name, type and price of the products and analysis of trucks and automobile market, and three samples of invoices related to this Continuing Connected Transaction and we consider the abovementioned procedures and considerations taken into account by the market management department and price management department of the Company will ensure that this Continuing Connected Transaction is conducted on normal commercial terms with fair and reasonable price and not prejudicial to the interests of the Company and the Independent Shareholders.

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

The table below summarises the Existing Caps for the three years ending 31 December 2017 for this Continuing Connected Transaction:

	Year ended 31 December 2015 RMB	Year ended 31 December 2016 RMB	Year ended 31 December 2017 RMB
Existing Cap	3,100,000,000	3,500,000,000	3,900,000,000

The table below summarises the actual transaction amounts involved and the respective utilization rate for each of the two years ended 31 December 2016 (audited) and the 6 months ended 30 June 2017 (unaudited) for this Continuing Connected Transaction:

	Year ended 31 December 2015 RMB	Year ended 31 December 2016 RMB	6 months ended 30 June 2017 (Note 1) RMB
Actual transaction amount	456,185,388	488,439,091	1,010,819,161
Utilization rate	14.7%	14.0%	51.8%

Note:

1. The utilization rate has been calculated on an annualized basis

The Company estimates that the transaction amount of this Continuing Connected Transaction for the three years ending 31 December 2020 shall not exceed RMB2,600,000,000, RMB3,000,000,000 and RMB3,500,000,000 respectively, and the same have been accordingly set as the proposed New Caps for this Continuing Connected Transaction.

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 line with the increase in demand for gas engines and relevant products driven by the growth of the heavy-duty trucks market in the PRC in 2017 and the national policies which promote the use of gas engines, the transaction amount for the Continuing Connected Transaction under this sub-section has increased significantly during the first six months of 2017 compared to the full years of 2015 and 2016, respectively. 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

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

ending 31 December 2020, 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 (including 《加快推進天然氣利用的意見》 (“Opinions on Accelerating the Use of Natural Gas”) and 《能源發展“十三五”規劃》 (發改能源[2016]2744號) (“National Energy Administration on Issuing the 13th Five-year Plan for Energy Development”) (Fagainengyuan [2016] no. 2744) promulgated by the National Development and Reform Commission (國家發展改革委員會) of the PRC which promote the development of vehicles and ships with gas engines and/or the use of natural gas) and the Group’s development plans (which are expected to expand the business of the gas engines in line with the State policies) 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, in particular, the unaudited actual transaction amount of RMB1,010,819,161 for the 6 months ended 30 June 2017, (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, which is expected to increase by approximately 10%, 15% and 15% in each of the three years ending 31 December 2020, respectively, (iii) the average unit prices of such base engines, gas engine parts and related products, which are expected to remain steady in the three years ending 31 December 2020; and (iv) the expected transaction amount of this Continuing Connected Transaction for the three years ending 31 December 2020 taking into account a buffer of 20% (considering the periodical development and fluctuation in the industry). 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 15% and 16% for each of the two years ending 31 December 2020, respectively. We consider the buffer mentioned above for this Continuing Connected Transaction is fair and reasonable after reviewing the market analysis provided by the Company and the historical transaction amount of this Continuing Connected Transaction.

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 2020:

	Year ending 31 December 2018 RMB	Year ending 31 December 2019 RMB	Year ending 31 December 2020 RMB
New Cap	2,600,000,000	3,000,000,000	3,500,000,000

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

As the highest percentage ratio calculated in accordance with the Listing Rules for this Continuing Connected Transaction for the three years ending 31 December 2020 (when aggregated with the proposed New Caps for the same period under the Weichai Westport Purchase Agreement) 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, the annual review requirements, and the independent shareholders' approval requirements under Chapter 14A of the Listing Rules.

Since this Continuing Connected Transaction for the three years ending 31 December 2020 (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.

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 (as supplemented by the supplemental agreement dated 8 December 2014)

Date: 14 July 2017

Parties:

1. (a) The Company
(b) Weichai Reproduction
(c) Weichai After-sales Services; and
2. Weichai Westport

Term: 1 January 2018 to 31 December 2020

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

Other terms and details:

Pursuant to the Weichai Westport Purchase Agreement (as supplemented by the abovementioned supplemental agreement but prior to the entering into of this latest Supplemental Agreement), each of the Company, Weichai Reproduction and Weichai After-sales Services 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 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. 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 After-sales Services 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 2018 to 31 December 2020, upon the expiry of which the parties may extend the term for three years on a mutually agreed basis.

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

- (i) 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 price of at least one to two relevant products (offered for sale by independent third parties) in the market in general, market share, order situation and performance of major competitors in the market);
- (ii) The final price shall be determined based on arm's length negotiations between the parties; and
- (iii) the price management department shall review the reasonableness of the price on a quarterly basis and make adjustments where necessary.

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

Save as set out herein, all other terms of the Weichai Westport Purchase Agreement (as supplemented by the abovementioned supplemental agreement but prior to the entering into of this latest Supplemental Agreement) as set out above remain unchanged. The Directors are of the view that the abovementioned methods and procedures under the pricing policies can ensure that this Continuing Connected Transaction is conducted on normal commercial terms and not prejudicial to the interests of the Company and the Independent Shareholders.

We have discussed with the Company and reviewed two samples of the market research and analysis conducted by the market management department of the Company, which included information such as name, type and price of the products and analysis of trucks and automobile market, and three samples of invoices related to this Continuing Connected Transaction and we consider the abovementioned procedures and considerations taken into account by the market management department and price management department of the Company will ensure that this Continuing Connected Transaction is conducted on normal commercial terms with fair and reasonable price and not prejudicial to the interests of the Company and the Independent Shareholders.

The table below summarises the Existing Caps for the three years ending 31 December 2017 for this Continuing Connected Transaction:

	Year ended 31 December 2015 RMB	Year ended 31 December 2016 RMB	Year ended 31 December 2017 RMB
Existing Cap	5,300,000,000	5,600,000,000	6,000,000,000

The table below summarises the actual transaction amounts involved and the respective utilization rate for each of the two years ended 31 December 2016 (audited) and the 6 months ended 30 June 2017 (unaudited) for this Continuing Connected Transaction:

	Year ended 31 December 2015 RMB	Year ended 31 December 2016 RMB	6 months ended 30 June 2017 (Note 2) RMB
Actual transaction amount	1,032,309,947	959,290,002	2,052,491,000
Utilization rate	19.5%	17.1%	68.4%

Note:

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

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The Company estimates that the transaction amount of this Continuing Connected Transaction for the three years ending 31 December 2020 shall not exceed RMB5,400,000,000, RMB6,300,000,000 and RMB7,000,000,000 respectively, and the same have been accordingly set as the proposed New Caps for this Continuing Connected Transaction.

As disclosed in the Letter from the Board, the Group sold certain base engines, gas engine parts and related products to Weichai Westport. Such products are then 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 line with the growth of the heavy-duty trucks market in the PRC in 2017 and the national policies which promote the use of gas engines, the demand for gas engines and relevant products has increased and accordingly, the transaction amount for the Continuing Connected Transaction under this sub-section has increased significantly during the first six months of 2017 compared to the full years of 2015 and 2016, respectively. 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 2020, 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 (including 《加快推進天然氣利用的意見》 (“Opinions on Accelerating the Use of Natural Gas”) and 《能源發展“十三五”規劃》 (發改能源[2016]2744號) (“National Energy Administration on Issuing the 13th Five-year Plan for Energy Development” (Fagainengyuan [2016] no. 2744) promulgated by the National Development and Reform Commission (國家發展改革委員會) of the PRC which promote the development of vehicles and ships with gas engines and/or the use of natural gas) and the Group's development plans (which are expected to expand the business of the gas engines in line with the State policies) 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, in particular, the unaudited actual transaction amount of RMB2,052,491,000 for the 6 months ended 30 June 2017 (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, which is expected to increase by approximately 10%, 15% and 15% in each of the three years ending 31 December 2020, (iii) the average unit prices of such gas engines, gas engine parts and related products, which are expected to remain steady in the three years ending 31 December 2020; and (iv) the expected transaction amount of this Continuing Connected Transaction for the three years ending 31 December 2020 taking into account a buffer of 20% (considering the periodical development and fluctuation in the industry). Taking into account and on the basis of all the aforesaid factors, it is

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

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 16% and 11% for each of the two years ending 31 December 2020, respectively. We consider the buffer mentioned above for this Continuing Connected Transaction is fair and reasonable after reviewing the market analysis provided by the Company and the historical transaction amount of this Continuing Connected Transaction.

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 2020:

	Year ending 31 December 2018 RMB	Year ending 31 December 2019 RMB	Year ending 31 December 2020 RMB
New Cap	5,400,000,000	6,300,000,000	7,000,000,000

As the highest percentage ratio calculated in accordance with the Listing Rules for this Continuing Connected Transaction for the three years ending 31 December 2020 (when aggregated with the proposed New Caps for the same period under the Weichai Westport Supply Agreement) 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 Listing Rules.

Since this Continuing Connected Transaction for the three years ending 31 December 2020 (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.

D. Reasons for and Benefits of the Weichai Continuing Connected Transactions

As stated in the Letter from the Board, the Company is principally engaged in the research and development, manufacture and sale of high-speed heavy-duty diesel engines. In respect of the Weichai Continuing Connected Transactions, 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

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

and related products by the Group to its customers will allow the Group to maintain a strong strategic and business relationship with Weichai Westport, thereby generating synergy potential and mutual economic benefits between the Group and Weichai Westport. The Board considers that the Weichai 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.

We have reviewed and discussed with the Company the basis and assumptions, as mentioned in the Letter from the Board, adopted by it in determining the proposed New Caps for the Weichai Continuing Connected Transactions. We have also reviewed the supporting documents, including the national policies, provided by the Company.

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 2015 and 2016 (audited) and the 6 months ended 30 June 2017 (unaudited); and (ii) the proposed New Caps for such Continuing Connected Transaction for each of the three years ending 31 December 2018, 2019 and 2020:

	Total transaction amounts in relation to the supply of products and services by the Group to Weichai Westport RMB'000	Increase as compared to the preceding financial year %
Actual transaction amounts:		
2015	456,185	N/A
2016	488,439	7.07
6 months ended 30 June 2017 <i>Note 1</i>	1,010,819	313.90
New Caps:		
2018 <i>Note 2</i>	2,600,000	28.61
2019	3,000,000	15.38
2020	3,500,000	16.67

Note:

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 6 months of 2017 on an annualized basis.

We noted that after global economic downturn and the difficult mission of decapacitizing and eliminating excessive inventories in China in 2015, the rebound of the heavy-duty truck market in China was the major contribution to the out-of-expectation performance of the Group in 2016. With effect from 1 January 2017, the China V Emission Standards will apply to the manufacturing, importing,

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

sale and registration of all petrol-driven light vehicles and diesel-driven heavy-duty vehicles (for passenger, public transportation, environment and hygiene, and postal use) in China. With effect from 1 July 2017, China V Emission Standards will apply to the manufacturing, importing, sale and registration of all diesel-driven heavy-duty vehicles. With effect from 1 January 2018, the China V Emission Standards will apply to the manufacturing, importing, sale and registration of all diesel-driven light vehicles in China. As such, some segments of the market will experience a new round of shuffling and the elimination of backward production capacities will be accelerated. Leveraging upon the synergy presented by the Company's globally coordinated R&D, advanced technology in smart manufacturing, product and service diversity and its strong base of loyal customers, the Company, as a market leader in China, has actively responded by starting its preparation work in advance.

As mentioned in the Letter from the Board, the Company expects that the transaction amount of the 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 2020, 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.

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 2015 and 2016 (audited) and the 6 months ended 30 June 2017 (unaudited); and (ii) the proposed New Caps for the Continuing Connected Transaction for the three years ending 31 December 2018, 2019 and 2020.

	Total transaction amounts in relation to the purchase of products and services by the Group from Weichai Westport RMB'000	Increase as compared to the preceding financial year %
Actual transaction amounts:		
2015	1,032,310	N/A
2016	959,290	-7.07
6 months ended 30 June 2017 <i>Note 3</i>	2,052,491	327.92
New Caps:		
2018 <i>Note 4</i>	5,400,000	31.55
2019	6,300,000	16.67
2020	7,000,000	11.11

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Note:

3. The percentage increase has been calculated on an annualized basis.
4. The percentage increase has been calculated by comparison with the actual transaction amount in the first 6 months of 2017 on an annualized basis.

As mentioned in the Letter from the Board, 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 2020, 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.

We understand from the Company that in determining the price under a sales or purchase 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 process of price determination of the Group is on normal commercial terms and should result in fair and reasonable prices for the relevant transactions.

After considering the actual transaction amounts of the Weichai Continuing Connected Transactions, recent Chinese government policy on emission standards and the pricing mechanism of the Company in determining the sale or purchase price, and reviewing the Group's financial performance as stated above, we consider the Weichai Continuing Connected Transactions are on normal commercial terms or better, and that the terms and the proposed New Caps of the Weichai Continuing Connected Transactions are fair and reasonable and are in the interests of the Company and the Independent Shareholders as a whole.

RECOMMENDATION

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

- (1) the actual audited and unaudited transaction amounts of the Weichai Continuing Connected Transactions;
- (2) the process of price determination as mentioned above;
- (3) the 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;
- (4) 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;

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- (5) the Weichai Continuing Connected Transactions under the Supplemental Agreements will provide a secure source of revenue for the Group; and
- (6) the Weichai Continuing Connected Transactions under the Supplemental Agreements will also secure a stable and reliable supply of quality gas engines from Weichai Westport instead of sourcing from other market suppliers,

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

Yours faithfully,

For and on behalf of

Trinity Corporate Finance Limited

Keith Jacobsen

Responsible Officer

Joanne Pong

Responsible Officer

1. RESPONSIBILITY STATEMENT

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

2. DISCLOSURE OF INTERESTS

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

Interests in the Shares of the Company

Name of director	Capacity	Number of "A" shares held	Number of "H" shares held	Percentage of the issued share capital of the Company
Tan Xuguang	Beneficial owner	58,842,596 (Note 1)	–	0.74%
Zhang Quan	Beneficial owner	13,684,324 (Note 1)	–	0.17%
Xu Xinyu	Beneficial owner	13,684,324 (Note 1)	–	0.17%
Sun Shaojun	Beneficial owner	13,684,324 (Note 1)	–	0.17%
Yuan Hongming	Beneficial owner	440	–	0.000006%
	Interest held by spouse	440	–	0.000006%
Yan Jianbo	Beneficial owner	22,404	–	0.0003%

Name of supervisor	Capacity	Number of "A" shares held	Number of "H" shares held	Percentage of the issued share capital of the Company
Lu Wenwu	Beneficial owner	600,000	–	0.008%

Notes:

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

Interests in the shares of associated corporations of the Company

Name of Director	Name of associated corporation	Nature of interest	Class and number of securities interested or deemed to be interested	Approximate percentage interest in the entire issued share capital of associated corporations
Gordon Riske (Note)	KION Group AG ("KION")	Beneficial owner	227,350 ordinary shares	0.1925%
		Interest held by spouse	3,000 ordinary shares	0.0025%

Note: Gordon Riske, a non-executive Director, was the beneficial owner of 227,350 shares in KION and he was also deemed to be interested in 3,000 shares in KION which were beneficially held by his wife, Ms. Benita Riske.

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

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

Name	Capacity	Long/ Short position	Number of A shares	Percentage of share capital comprising only A shares	Number of H shares	Percentage of share capital comprising only H shares	Percentage of total issued share capital
Weichai Group Holdings Limited	Beneficial owner	Long	1,345,905,600	22.23%	–	–	16.83%
Shandong Heavy Industry Group Co., Ltd. (Note 1)	Held by controlled corporation	Long	1,345,905,600	22.23%	–	–	16.83%
Brandes Investment Partners, LP (Note 3)	Investment manager	Long	–	–	78,578,612	16.18%	3.93%
Lazard Asset Management LLC (Note 2)	Investment manager	Long	–	–	245,891,812	25.31%	6.15%
BlackRock, Inc.	Interest of corporation controlled by the substantial shareholder	Long	–	–	179,208,661	9.22%	2.24%
	Interest of corporation controlled by the substantial shareholder	Short	–	–	31,000	0.00%	0.00%
Lazard Emerging Markets Equity Portfolio (Note 4)	Investment manager	Long	–	–	23,707,500	5.86%	1.42%
Citigroup Inc.	Interest of corporation controlled by the substantial shareholder	Long	–	–	4,949,572	0.25%	0.06%
	Custodian Corporation / approved lending agent	Long	–	–	101,190,956	5.21%	1.27%
					<u>106,140,528</u>	<u>5.46%</u>	<u>1.33%</u>

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
	Interest of corporation controlled by the substantial shareholder	Short	–	–	4,234,232	0.22%	0.05%
Barclays PLC (Note 3)	Person having a security interest in shares	Long	–	–	525,552	0.11%	0.03%
	Interest of corporation controlled by the substantial shareholder	Long	–	–	25,453,050	5.24%	1.27%
					<u>25,978,602</u>	<u>5.35%</u>	<u>1.30%</u>
	Interest of corporation controlled by the substantial shareholder	Short	–	–	24,102,475	4.96%	1.21%
Morgan Stanley (Note 2)	Interest of corporation controlled by the substantial shareholder	Long	–	–	49,335,508	5.08%	1.23%
	Interest of corporation controlled by the substantial shareholder	Short	–	–	42,078,545	4.33%	1.05%

Notes:

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

3. The number of H shares (and the relevant shareholding percentages) reported above by the relevant substantial shareholder does not take into consideration the Company's bonus share issuance on 21 July 2017 and 20 August 2015 as there is no disclosure of interest obligation under the SFO where there is no change in percentage of shareholdings for a substantial shareholder.
4. The number of H shares (and the relevant shareholding percentages) reported above by the relevant substantial shareholder does not take into consideration the Company's bonus share issuance on 21 July 2017, 20 August 2015 and 17 August 2012 as there is no disclosure of interest obligation under the SFO where there is no change in percentage of shareholdings for a substantial shareholder.

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

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

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

3. ARRANGEMENTS AND MATTERS CONCERNING DIRECTORS

- (a) None of the Directors has entered into any service contract with the Group, which is not expiring or determinable by the Group within one year without payment of compensation (other than the payment of statutory compensation).
- (b) As at the Latest Practicable Date, save for Mr. Gordon Riske's interest in KION as disclosed in the section headed "2. Disclosure of interests – Interest in the shares of associated corporations of the Company" of this Appendix, none of the Directors was interested, directly or indirectly, in any assets which, since 31 December 2016, being the date to which the latest published audited consolidated financial statements of the Group were made up, had been acquired or disposed of by or leased to any member of the Group, or were proposed to be acquired or disposed of by or leased to any member of the Group. On 22 May 2017, the Company (through its indirect wholly-owned subsidiary, Weichai Power (Luxembourg) Holding S.à r.l.), acquired 4,023,275 shares in KION for a consideration of approximately EUR261 millions.

- (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 2016, being the date to which the latest published audited consolidated financial statements of the Group were made up, and which was significant in relation to the business of the Group.
- (d) As at the Latest Practicable Date, save for the directorship of Mr. Zhang Quan in 北汽福田汽車股份有限公司 (Beiqi Foton Motor Co., Ltd.) ("**Beiqi Foton**"), none of the Directors or their respective associates had any interest in a business which competed or might compete with the business of the Company. The Company has an approximately 1.2% interest in the shares of Beiqi Foton. Beiqi Foton is also a customer of the Company's diesel engines. Beiqi Foton is engaged in the production of, *inter alia*, heavy-duty vehicles/trucks.

4. MATERIAL ADVERSE CHANGE

The Directors are not aware of any material adverse change in the financial or trading position of the Group since 31 December 2016, the date to which the latest audited consolidated financial statements of the Group were made up.

5. EXPERT

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

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

- (b) As at the Latest Practicable Date, the Independent Financial Adviser did not have any shareholding in the Company or any right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in any member of the Group, nor did it have any interest, direct or indirect, in any assets which had, since the date to which the latest published audited consolidated financial statements of the Group were made up, been acquired or disposed of by or leased to any member of the Group, or were proposed to be acquired or disposed of by or leased to any member of the Group.
- (c) The Independent Financial Adviser has given and has not withdrawn its written consent to the issue of this circular with the inclusion herein of its letter and references to its name in the forms and contexts in which they appear. The letter of the Independent Financial Adviser contained herein was issued on 11 August 2017 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 11 August 2017 to 25 August 2017 (both days inclusive):

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