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**WEICHAI**

**潍柴動力股份有限公司**

**WEICHAI POWER CO., LTD.**

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

**(Stock Code: 2338)**

## **ANNOUNCEMENT CONTINUING CONNECTED TRANSACTION**

### **SUMMARY**

The Board announces that on 30 August 2017, the Group has entered into the Supplemental Agreement in respect of the Continuing Connected Transaction as more particularly described herein.

As the highest percentage ratio calculated in accordance with the Listing Rules for the Continuing Connected Transaction exceeds the 0.1% Threshold but does not exceed the 5% Threshold, the Continuing Connected Transaction is subject to the reporting, announcement and annual review requirements of Chapter 14A of the Listing Rules but are exempt from the independent Shareholders' approval under the Listing Rules.

### **I. INTRODUCTION**

Reference is made to the announcement of the Company dated 30 August 2016, in respect of, *inter alia*, the Continuing Connected Transaction of the Company where the Existing Caps for the Continuing Connected Transaction were set.

For this Continuing Connected Transaction, the Company proposes to revise its Existing Caps. For such purpose, the Group entered into the Supplemental Agreement. The Supplemental Agreement and the relevant New Caps in respect of the Continuing Connected Transaction are unconditional.

A summary of the Continuing Connected Transaction, the Supplemental Agreement, the Existing Caps, the actual transaction amounts of the Continuing Connected Transaction for the relevant periods and the New Caps (and their bases) is set out in the section headed "II. Continuing Connected Transaction" in this announcement.

## II. CONTINUING CONNECTED TRANSACTION

### ***SUMMARY OF THE CONTINUING CONNECTED TRANSACTION AND THE NEW CAPS***

The Continuing Connected Transaction is as follows:

<b>Name of connected person</b>	<b>Name of Group Company</b>	<b>Connected person's relationship with the Group</b>	<b>Nature of the connected transaction with the Group</b>
Weichai Holdings (and its associates) ( <i>note 1</i> ) (as the case may be)	The Company, Weichai After-sales Services, Weichai Casting, Weichai Reproduction and Weichai Logistics ( <i>note 2</i> ) (as the case may be)	Holder of 16.83% of the equity of the Company	Sale of diesel engines, diesel engine parts and components, materials, semi-finished products and related products and provision of processing services by the Company (and its subsidiaries) to Weichai Holdings (and its associates)

*Notes:*

- 1. The associates of Weichai Holdings are Chongqing Weichai and Weichai Import and Export.*
- 2. Each of Weichai After-sales Services, Weichai Casting, Weichai Reproduction and Weichai Logistics is a wholly-owned subsidiary of the Company.*

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

<b>Connected person and details of the Continuing Connected Transaction</b>	<b>New Caps</b>		
	<b>2017</b> <i>RMB</i>	<b>2018</b> <i>RMB</i>	<b>2019</b> <i>RMB</i>
<b>Weichai Holdings (and its associates)</b>			
Sale of diesel engines, diesel engine parts and components, materials, semi-finished products and related products and provision of processing services by the Company (and its subsidiaries) to Weichai Holdings (and its associates)	1,100,000,000*	1,250,000,000*	1,400,000,000*

*Note:*

*Where a New Cap is marked “\*”, that means the proposed New Caps for the relevant Continuing Connected Transaction do not exceed the 5% Threshold and are exempt from the approval by the Independent Shareholders under the Listing Rules.*

## ***DETAILS OF THE CONTINUING CONNECTED TRANSACTION AND THE RELEVANT SUPPLEMENTAL AGREEMENTS***

### ***The Company and its subsidiaries***

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

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

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

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

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

### ***Continuing Connected Transaction between Weichai Holdings (and its associates) and the Group***

#### ***Weichai Holdings and its associates***

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

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

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

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

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

Date: 30 August 2017

Parties:

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

Term: 1 January 2017 to 31 December 2019

Other terms and details:

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

Pursuant to this Supplemental Agreement, the Company (and Chongqing Branch), Weichai After-sales Services, Weichai Casting, Weichai Reproduction, Weichai Logistics and/or other Group Company (as the case may be) shall sell the said diesel engines, diesel engine parts and components, materials, semi-finished products and related products and to provide the said processing services (as the case may be) to Weichai Holdings, Weichai Import and Export, Chongqing Weichai and/or other associates of Weichai Holdings (as the case may be) at market prices and settled on a monthly basis. The said Supplemental Agreement shall be effective for a term of three years ending 31 December 2019. Save as set out herein, all other terms of the Weichai Sale and Processing Services Agreement (as supplemented by the abovementioned supplemental agreements but prior to the entering into of this latest Supplemental Agreement) as set out above remain unchanged.

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

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

	<b>2017</b>	<b>2018</b>	<b>2019</b>
	<i>RMB</i>	<i>RMB</i>	<i>RMB</i>
Existing Cap	850,000,000	1,000,000,000	1,190,000,000

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

	<b>Year ended 31 December</b>		<b>Six months ended 30 June</b>
	<b>2015</b>	<b>2016</b>	<b>2017</b>
	<i>RMB</i>	<i>RMB</i>	<i>RMB</i>
	<i>(audited)</i>	<i>(audited)</i>	<i>(unaudited)</i>
Actual transaction amount	359,854,325	508,930,264	466,210,857

Due to the favourable environment in the industry and the strong demand for the Group's products, the transaction amount of the sale of the abovementioned products and processing services by the Group to Weichai Holdings (and its associates) has increased substantially for the first six months of 2017.

The Company estimates that the transaction amounts for the Continuing Connected Transaction set out in this sub-section for the three years ending 31 December 2019 will not exceed RMB1,100 million, RMB1,250 million and RMB1,400 million, respectively, and such amounts have accordingly been set as the proposed New Caps for this Continuing Connected Transaction.

The above proposed New Caps have been estimated by the Company primarily based on (i) the relevant historical costs, and (ii) the estimate of the number of diesel engines, diesel engine parts and components, materials and semi-finished products required by Weichai Holdings, Weichai Import and Export and Chongqing Weichai (as the case may be) in view of the implementation of the Thirteenth Five-year Plan, the average unit prices of the same, and the costs of the processing services to be provided. Taking into account and on the basis of all the aforesaid factors, it is estimated that the overall transaction amount of the said sale of products and services will grow by approximately 13.6% and 12% for each of the years ending 31 December 2018 and 31 December 2019, respectively.

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

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

As the New Caps for this Continuing Connected Transaction for the three years ending 31 December 2019, do not exceed the 5% Threshold, this Weichai Continuing Connection Transaction constitutes an Exempt Continuing Connected Transaction of the Company under Chapter 14A of the Listing Rules and will be subject to the reporting, announcement and annual review requirements of Chapter 14A of the Listing Rules.

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

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

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

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

The Directors (including the independent non-executive Directors) have confirmed that the Continuing Connected Transaction has 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) are of the view that the Continuing Connected Transaction, 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 30 August 2017 approving, *inter alia*, the Continuing Connected Transaction, Tan Xuguang, Jiang Kui, Zhang Quan, Xu Xinyu and Sun Shaojun (all being Directors) have abstained from voting on the resolution in respect of the Continuing Connected Transaction, for the reasons of their respective interest and/or position (as the case may be) in the connected person.

Save as disclosed, no other Directors have any material interest in the Continuing Connected Transaction.

As the highest percentage ratio calculated in accordance with the Listing Rules for the Weichai Continuing Connected Transaction exceeds the 0.1% Threshold but does not exceed the 5% Threshold, the Continuing Connected Transaction is subject to the reporting, announcement and annual review requirements of Chapter 14A of the Listing Rules but are exempt from the independent Shareholders' approval under the Listing Rules.

#### IV. DEFINITIONS

In this announcement, the following expressions have the meanings set out below unless the context requires otherwise:

“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) of the Listing Rules
“Chongqing Weichai”	重慶濰柴發動機有限公司 (Chongqing Weichai Diesel Engine Company Limited*) (formerly known as 重慶濰柴發動機廠 (Chongqing Weichai Diesel Engine Factory*)), a Company established in the PRC and a connected person of the Company
“Chongqing Casting”	重慶市江津區重濰鑄造有限公司 (Chongqing City Jiangjin District Chongwei Casting Co. Ltd.*), a company established in the PRC which was subsequently deregistered
“Company”	濰柴動力股份有限公司 (Weichai Power Co., Ltd.), a company established in the PRC with limited liability
“connected person(s)”	has the meaning ascribed thereto under the Listing Rules



“Continuing Connected Transaction”	the continuing connected transaction of the Group set out in the section headed “II. Continuing Connected Transaction” in this announcement
“Director(s)”	the director(s) of the Company
“Exempt Continuing Connected Transaction”	being the Continuing Connected Transaction exempt from circular, independent financial advice and shareholders’ approval requirements pursuant to Rule 14A.101 of the Listing Rules, or the proposed New Caps for which do not exceed the 5% Threshold and, accordingly, are not subject to the approval by the independent Shareholders under the Listing Rules
“Existing Cap(s)”	the existing cap(s) for the Continuing Connected Transaction set out in the section headed “II. Continuing Connected Transaction” in this announcement
“Group”	the Company and its subsidiaries, and “Group Company” means any of the same
“Listing Rules”	the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited
“New Cap(s)”	as defined in the section headed “II. Continuing Connected Transaction” in this announcement
“PRC”	the People’s Republic of China
“RMB”	Renminbi, the lawful currency of the PRC
“Shareholder(s)”	holder(s) of the shares of the Company
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Supplemental Agreement”	the supplemental agreement relating to the Continuing Connected Transaction entered into between the Group and the relevant connected persons as more particularly set out in the section headed “II. Continuing Connected Transaction” in this announcement

“Weichai After-sales Services”	濰柴(濰坊)後市場服務有限公司 (Weichai (Weifang) After-sales Market Services Co., Ltd.*) (formerly known as 濰柴動力備品資源公司 (Weichai Power Reserves and Resources Company*)), a company established in the PRC and a subsidiary of the Company
“Weichai Casting”	濰柴動力(濰坊)鑄鍛有限公司 (Weichai Power (Weifang) Casting Co., Ltd.*), a company established in the PRC and a subsidiary of the Company
“Weichai 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 Import and Export”	山東濰柴進出口有限公司 (Shandong Weichai Import and Export Co., Ltd.*), a company established in the PRC wholly-owned by Weichai Holdings and a connected person of the Company
“Weichai Logistics”	濰柴動力(濰坊)集約配送有限公司 (Weichai Power (Weifang) Intensive Logistics Co., Ltd.*), a company established in the PRC and a wholly-owned subsidiary of the Company
“Weichai Reproduction”	濰柴動力(濰坊)再製造有限公司 (Weichai Power (Weifang) Reconstruction Co., Ltd.*), a company established in the PRC and a subsidiary of the Company

\* For identification purposes only

By order of the Board  
**Tan Xuguang**  
Chairman and CEO

Hong Kong, 30 August 2017

*As at the date of this announcement, the executive Directors of the Company are Mr. Tan Xuguang, Mr. Zhang Quan, Mr. Xu Xinyu, Mr. Sun Shaojun, Mr. Yuan Hongming and Mr. Yan Jianbo; the non-executive Directors of the Company are Mr. Wang Yuepu, Mr. Jiang Kui and Mr. Gordon Riske; and the independent non-executive Directors of the Company are Mr. Loh Yih, Mr. Zhang Zhong, Mr. Wang Gongyong, Mr. Ning Xiangdong and Mr. Li Hongwu.*