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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)

CONNECTED TRANSACTION

CAPITAL CONTRIBUTIONS TO SHANDONG HEAVY GROUP FINANCE CO., LTD.

CAPITAL CONTRIBUTIONS

Reference is made to the announcement of the Company dated 16 January 2012 in respect of the subscription of the registered capital in the Target Co and the establishment of the Target Co.

On 30 August 2017, the Existing Shareholders (comprising the Company, Shandong Heavy Industry, Weichai Heavy Machinery and Shantui Engineering) and SFGC entered into the Capital Increase Agreement with the Target Co, pursuant to which the Company, SFGC and Shandong Heavy Industry conditionally agreed to make Capital Contributions to the Target Co in an aggregate amount of approximately RMB972 million, among which RMB600 million will be used to increase the registered capital of the Target Co and approximately RMB372 million will be used to increase the capital reserve of the Target Co.

Upon completion of the transactions contemplated under the Capital Increase Agreement, the equity interest in the Target Co held by the Group would increase from 20% to 37.5%, whereas the equity interest in the Target Co held by Shandong Heavy Industry and its subsidiaries would decrease from 80% to 62.5%.

LISTING RULES IMPLICATIONS

Shandong Heavy Industry is a substantial shareholder of the Company indirectly holding approximately 16.83% of the issued share capital of the Company, and Weichai Heavy Machinery and Shantui Engineering are subsidiaries of Shandong Heavy Industry. As at the date of this announcement, Shandong Heavy Industry, Weichai Heavy Machinery and Shantui Engineering together hold 80% of the equity interest in the Target Co. Hence, the Target Co is an associate of Shandong Heavy Industry and is a connected person of the Company under the Listing Rules. Accordingly, the making of the relevant Capital Contributions by the Company and SFGC (a subsidiary of the Company) contemplated under the Capital Increase Agreement constitutes a connected transaction of the Company under Chapter 14A of the Listing Rules.

As certain of the applicable percentage ratios calculated pursuant to the Listing Rules in respect of the Capital Contributions to be made by the Company and SFGC under the Capital Increase Agreement are more than 0.1% but all of which are less than 5%, the making of such Capital Contributions is subject to the reporting and announcement requirements under Chapter 14A of the Listing Rules but is exempt from the independent Shareholders' approval requirement.

I. INTRODUCTION

Reference is made to the announcement of the Company dated 16 January 2012 in respect of the subscription of the registered capital in the Target Co and the establishment of the Target Co.

On 30 August 2017, the Existing Shareholders (comprising the Company, Shandong Heavy Industry, Weichai Heavy Machinery and Shantui Engineering) and SFGC entered into the Capital Increase Agreement with the Target Co, pursuant to which the Company, SFGC and Shandong Heavy Industry conditionally agreed to make Capital Contributions to the Target Co in an aggregate amount of approximately RMB972 million, among which RMB600 million will be used to increase the registered capital of the Target Co and approximately RMB372 million will be used to increase the capital reserve of the Target Co.

II. PRINCIPAL TERMS OF CAPITAL INCREASE AGREEMENT

Date: 30 August 2017

Parties: (1) The Company
(2) SFGC
(3) Shandong Heavy Industry
(4) Shantui Engineering
(5) Weichai Heavy Machinery
(6) Target Co

Subject matter

The Company, SFGC and Shandong Heavy Industry conditionally agreed to make Capital Contributions (each a “**Capital Contribution**”) to the Target Co in an aggregate amount of approximately RMB972 million (equivalent to approximately HK\$1,147.0 million) in the following manner:

Party	Amount of Capital Contribution to be made to the Target Co
The Company	<p>Approximately RMB486 million (equivalent to approximately HK\$573.5 million) in cash, which is expected to be funded out of the Group’s financial resources, among which:</p> <ul style="list-style-type: none">(i) RMB300 million shall be used to increase the registered capital of the Target Co; and(ii) approximately RMB186 million will be used to increase the capital reserve of the Target Co.
SFGC	<p>Approximately RMB162 million (equivalent to approximately HK\$191.2 million) in cash, which is expected to be funded out of SFGC’s financial resources, among which:</p> <ul style="list-style-type: none">(i) RMB100 million shall be used to increase the registered capital of the Target Co; and(ii) approximately RMB62 million will be used to increase the capital reserve of the Target Co.
Shandong Heavy Industry	<p>Approximately RMB324 million (equivalent to approximately HK\$382.3 million) in cash, among which:</p> <ul style="list-style-type: none">(i) RMB200 million shall be used to increase the registered capital of the Target Co; and(ii) approximately RMB124 million will be used to increase the capital reserve of the Target Co.

The above amounts of the Capital Contributions to be made to the Target Co were determined after arm’s length negotiations among the parties with reference to, among others, the capital needs of the Target Co, the valuation of the net assets of the Target Co as at 31 December 2016 as prepared by an independent valuer, and the current respective proportion of the equity interest of the Existing Shareholders in the Target Co.

Conditions precedent

The Capital Increase Agreement shall become effective upon the Existing Shareholders and SFGC obtaining all necessary internal approvals and the Target Co obtaining the relevant shareholders’ approval in relation to the Capital Contributions. Completion of the Capital Contributions shall occur on the fifth working day after the fulfilment of the said conditions precedent (or such other date as agreed by the parties).

III. INFORMATION ON THE TARGET CO

The capital structure of Target Co (i) as at the date of this announcement; and (ii) immediately after the completion of Capital Contributions are set out below:

Name of equity holder	Registered capital of the Target Co held by the relevant equity holder as at the date of this announcement (RMB'million)	Percentage of equity interest of the Target Co held by the relevant equity holder as at the date of this announcement	Capital Contribution		Registered capital of the Target Co held by the relevant equity holder immediately after completion of the Capital Contributions (RMB'million)	Percentage of equity interest of the Target Co held by the relevant equity holder immediately after completion of the Capital Contributions
			To be vested as registered capital of the Target Co (RMB'million)	To be vested as capital reserve of the Target Co (RMB'million)		
Shandong Heavy Industry	400	40%	200	124	600	37.50%
Weichai Heavy Machinery	200	20%	-	-	200	12.50%
Shantui Engineering	200	20%	-	-	200	12.50%
The Company	200	20%	300	186	500	31.25%
SFGC	-	-	100	62	100	6.25%
Total:	1,000	100%	600	372	1,600	100%

Upon completion of the transactions contemplated under the Capital Increase Agreement, the equity interest in the Target Co held by the Group would increase from 20% to 37.5%, whereas the equity interest in the Target Co held by Shandong Heavy Industry and its subsidiaries would decrease from 80% to 62.5%.

Set out below is the audited financial information of the Target Co for the two financial years ended 31 December 2015 and 31 December 2016 prepared based on the Accounting Standards for Business Enterprises:

	For the year ended 31 December 2016 <i>RMB'million (audited)</i>	For the year ended 31 December 2015 <i>RMB'million (audited)</i>
Revenue	307.26	293.49
Net profits before taxation	202.02	151.52
Net profits after taxation	<u>151.48</u>	<u>113.59</u>

Based on the audited consolidated financial information of the Target Co prepared based on the Accounting Standards for Business Enterprises, as of 31 December 2016, the audited net asset value of the Target Co was approximately RMB1,339 million.

IV. INFORMATION ON THE EXISTING SHAREHOLDERS AND SFGC

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

SFGC is a 51% subsidiary of the Company and is principally engaged in the manufacture, sale, design and development of transmissions and other motor vehicle parts and components such as gears.

Shandong Heavy Industry is a substantial shareholder of the Company indirectly holding approximately 16.83% of the issued share capital of the Company. Shandong Heavy Industry is principally engaged in the investment and corporate management, planning and organising the operations of enterprises in its group, and the research and development, production and sale of diesel engines and relevant products, construction machinery and other equipment and components.

Weichai Heavy Machinery is a subsidiary of Shandong Heavy Industry, the principal business of which is the manufacture and sale of medium-speed diesel engines and diesel engine parts and components, power generators and related products, and construction machinery and the provision of repair processing services for machinery parts.

Shantui Engineering is a subsidiary of Shandong Heavy Industry, the principal business of which is the research and development, production, sale, leasing and repair of and provision of consultation service in regard to construction machinery, hoisting and conveying machinery, mining machinery, farmland construction machinery and harvesting machinery and the components.

V. REASONS AND BENEFITS FOR THE MAKING OF THE CAPITAL CONTRIBUTIONS

Shandong Finance is a non-banking financial institution established in June 2012 with the approval of the China Banking Regulatory Commission. The business scope of Shandong Finance includes the operation of the following businesses in domestic and foreign currencies: (1) provision of finance services and financing consultancy services to its member companies, provision of credit verification and related consultancy and agency services to its member companies; (2) provision of assistance to its member companies in payment and receipt of transaction proceeds; (3) provision of approved insurance agency services; (4) provision of guarantees to its member companies; (5) dealing with entrusted loans among its member companies; (6) provision of bill acceptance and discounting services to its member companies; (7) provision of intra-group transfer and settlement services to its member companies and planning of clearing and settlement scheme; (8) provision of its deposit services to its member companies; (9) provision of loans and finance leasing services to member companies; (10) provision of interbank loans; (11) underwriting the corporate bonds issued by its member companies; (12) making investments in negotiable securities (except stock trading in secondary market); and (13) provision of consumer credit, buyer credit and finance leasing for products of its member companies.

Reference is made to the announcement of the Company dated 30 March 2016 in relation to the financial services agreement entered into between the Company and the Target Co, pursuant to which the Target Co has been providing certain financial services (such as the provision of deposit and loan services) to the Group. The making of the Capital Contributions to the Target Co under the Capital Increase Agreement will strengthen the financial position and competitiveness of the Target Co, which is expected to allow the Target Co to provide better financial services to the Group. The Capital Contributions to be made by the Company and SFGC will also enable the Group to increase its equity holding percentage in the Target Co and in turn allow the Group to further benefit from the Target Co's profits. Hence, the Board considers that the making of the Capital Contributions is in line with the Group's development strategies and will further facilitate the Group's business expansion.

In light of the above, the Directors (including the independent non-executive Directors) consider that the Capital Contributions to be made by the Group are fair and reasonable, on normal commercial terms and in the ordinary and usual course of business of the Group, and in the interests of the Company and its Shareholders as a whole.

VI. THE LISTING RULES IMPLICATIONS

Shandong Heavy Industry is a substantial shareholder of the Company indirectly holding approximately 16.83% of the issued share capital of the Company through Weichai Holdings, and Weichai Heavy Machinery and Shantui Engineering are subsidiaries of Shandong Heavy Industry. As at the date of this announcement, Shandong Heavy Industry, Weichai Heavy Machinery and Shantui Engineering together hold 80% of the equity interest in the Target Co. Hence, the Target Co is an associate of Shandong Heavy Industry and is a connected person of the Company under the Listing Rules. Accordingly, the making of the relevant Capital Contributions by the Company and SFGC (a subsidiary of the Company) contemplated under the Capital Increase Agreement constitutes a connected transaction of the Company under Chapter 14A of the Listing Rules.

As certain of the applicable percentage ratios calculated pursuant to the Listing Rules in respect of the Capital Contributions to be made by the Company and SFGC under the Capital Increase Agreement are more than 0.1% but all of which are less than 5%, the making of such Capital Contributions is subject to the reporting and announcement requirements under Chapter 14A of the Listing Rules but is exempt from the independent Shareholders' approval requirement.

At the Board meeting held on 30 August 2017 approving, inter alia, the making of the relevant Capital Contributions by the Group, Mr. Tan Xuguang, Mr. Jiang Kui, Mr. Zhang Quan, Mr. Xu Xinyu, Mr. Sun Shaojun and Mr. Wang Yuepu have abstained from voting in respect of the resolution approving the transactions contemplated under the Capital Increase Agreement in view of their respective positions in Shandong Heavy Industry, Weichai Holdings and Weichai Heavy Machinery. Save as disclosed above, none of the Directors has a material interest in the Capital Increase Agreement.

VII. ADDITIONAL INFORMATION

As the A Shares of the Company are listed on the Shenzhen Stock Exchange, certain additional financial information in relation to the Target Co are required to be disclosed in the announcement issued on the Shenzhen Stock Exchange on the date hereof pursuant to the listing rules of the Shenzhen Stock Exchange as follows.

Basic financial information of the Target Co:

	As at 30 June 2017 RMB	As at 31 December 2016 RMB
Total assets	17,315,830,800	16,247,788,000
Total liabilities	15,878,163,100	14,909,198,500
Net asset	1,437,667,700	1,338,589,500

	For the six months ended 30 June 2017 RMB	For the year ended 31 December 2016 RMB
Revenue	185,579,800	307,265,700
Net profit	99,078,200	151,477,900

VIII. DEFINITIONS

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

“Board”	the board of Directors
“Capital Contribution(s)”	has the meaning ascribed to it under the section headed “II. Principal terms of the Capital Increase Agreement – Subject matter” in this announcement
“Capital Increase Agreement”	a capital increase agreement entered into between the Company, SFGC, Shandong Heavy Industry, Weichai Heavy Machinery, Shantui Engineering and the Target Co on 30 August 2017 in respect of the making of the Capital Contributions

“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”	has the meaning ascribed thereto under the Listing Rules
“Director(s)”	the director(s) of the Company
“Existing Shareholders”	the Company, Shandong Heavy Industry, Weichai Heavy Machinery and Shantui Engineering
“Group”	the Company and its subsidiaries
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange
“PRC”	the People’s Republic of China
“RMB”	Renminbi, the lawful currency of the PRC
“SFGC”	陝西法士特齒輪有限責任公司 (Shaanxi Fast Gear Co. Ltd.), a company established in the PRC and a 51% subsidiary of the Company
“Shandong Heavy Industry”	山東重工集團有限公司 (Shandong Heavy Industry Group Co., Ltd.), a substantial shareholder and connected person of the Company holding the entire capital of Weichai Holdings
“Shantui Engineering”	山推工程機械股份有限公司 (Shantui Engineering Machinery Co., Ltd.), a company established in the PRC, a subsidiary of Shandong Heavy Industry and a connected person of the Company
“Shareholder(s)”	holder(s) of the shares in the Company
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Target Co”	山東重工集團財務有限公司 (Shandong Heavy Industry Group Finance Co., Ltd.), a company established in the PRC and a connected person 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

“Weichai Heavy Machinery” 濰柴重機股份有限公司 (Weichai Heavy-duty Machinery Co., Ltd.), a company established in the PRC, a subsidiary of Shandong Heavy Industry and a connected person of the Company

“%” per cent.

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

(The exchange rate used for the purpose of this announcement is at HK\$1 = RMB0.8474)

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

The PRC, 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.