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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 TRANSACTIONS

SUMMARY

Reference is made to the announcements of the Company dated 2 August 2019 and 30 July 2021 in respect of certain continuing connected transactions between the Group and (i) Weichai Holdings (and its associates), and (ii) Shaanxi Automotive (and its associates). As the Group intends to continue to conduct the relevant transactions with such parties following expiry of the Existing Framework Agreements, the Board announces that on 30 August 2022, the Group has entered into the New Framework Agreements in respect of the Continuing Connected Transactions, being the Weichai Continuing Connected Transaction and the Shaanxi Automotive Continuing Connected Transactions, as more particularly described herein.

As the highest percentage ratio calculated in accordance with the Listing Rules for the Weichai Continuing Connected Transaction exceeds the 0.1% Threshold but do not exceed the 5% Threshold, the Weichai Continuing Connected Transaction is subject to the reporting, announcement and annual review requirements of Chapter 14A of the Listing Rules but is exempt from the independent Shareholders' approval under the Listing Rules. However, according to the relevant laws and regulations of the PRC and the Shenzhen Listing Rules, such Weichai Continuing Connected Transaction constitutes a PRC Continuing Connected Transaction and is subject to the approval by Shareholders at the EGM.

For the Shaanxi Automotive Continuing Connected Transactions, 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 Shaanxi Automotive Continuing Connected Transactions; and (iii) the independent non-executive Directors have confirmed that the terms of the Shaanxi Automotive Continuing Connected Transactions 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 Shaanxi Automotive Continuing Connected Transactions are subject to the reporting and announcement requirements but are exempt from circular, independent financial advice and shareholders' approval requirements pursuant to Rule 14A.101 of the Listing Rules. However, according to the relevant laws and regulations of the PRC and the Shenzhen Listing Rules, such Shaanxi Automotive Continuing Connected Transactions constitute PRC Continuing Connected Transactions and are subject to the approval by the Shareholders at the EGM.

I. INTRODUCTION

Reference is made to the announcements of the Company dated 2 August 2019 and 30 July 2021, respectively, in respect of, *inter alia*, the Continuing Connected Transactions of the Company where the Existing Caps for such Continuing Connected Transactions were set.

For these Continuing Connected Transactions, the Company intends to continue to conduct the transactions with the relevant parties following expiry of the Existing Framework Agreements, and hence, the Group entered into the New Framework Agreements. As the New Framework Agreements in respect of the Continuing Connected Transactions constitute PRC Continuing Connected Transactions, they are conditional upon the approval of the Shareholders at the EGM.

A summary of the Continuing Connected Transactions, the New Framework Agreements, the Existing Caps, the actual transaction amounts of the Continuing Connected Transactions for the relevant periods and the New Caps (and their bases) is set out in the section headed “II. Continuing Connected Transactions” in this announcement.

II. CONTINUING CONNECTED TRANSACTIONS

SUMMARY OF THE CONTINUING CONNECTED TRANSACTIONS AND THE NEW CAPS

The Continuing Connected Transactions include the following:

A. Weichai 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
Weichai Holdings (and its associates)	The Company (and its subsidiaries)	Holder of 16.30% of the equity of the Company	Purchase of vehicles, parts and components of vehicles and related products, excavators, loaders, raw materials including gas and scrap metals etc., diesel engines and related products, and processing services by the Company (and its subsidiaries) from Weichai Holdings (and its associates)

B. Shaanxi Automotive 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
Shaanxi Automotive (and its associates)	The Company (and its subsidiaries)	Holder of 49% of the equity of Shaanxi Zhongqi	<ol style="list-style-type: none"> 1. Sale of vehicles, parts and components of vehicles, raw materials and related products and provision of the relevant services by the Company (and its subsidiaries) to Shaanxi Automotive (and its associates) 2. Purchase of parts and components of vehicles, scrap steel and related products and labour services by the Company (and its subsidiaries) from Shaanxi Automotive (and its associates)

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

A. Weichai Continuing Connected Transaction

Details of the relevant Weichai Continuing Connected Transaction

	Proposed New Caps		
	For the year ending 31 December 2023 <i>RMB</i>	For the year ending 31 December 2024 <i>RMB</i>	For the year ending 31 December 2025 <i>RMB</i>
Purchase of vehicles, parts and components of vehicles and related products, excavators, loaders, raw materials including gas and scrap metals etc., diesel engines and related products, and processing services by the Company (and its subsidiaries) from Weichai Holdings (and its associates)	2,180,000,000*	3,140,000,000*	4,110,000,000*

B. Shaanxi Automotive Continuing Connected Transactions

Details of the relevant Shaanxi Automotive Continuing Connected Transactions

	Proposed New Caps		
	For the year ending 31 December 2023 RMB	For the year ending 31 December 2024 RMB	For the year ending 31 December 2025 RMB
Shaanxi Automotive (and its associates)			
1. Sale of vehicles, parts and components of vehicles, raw materials and related products and provision of relevant services by the Company (and its subsidiaries) to Shaanxi Automotive (and its associates)	5,740,000,000*	6,240,000,000*	6,740,000,000*
2. Purchase of parts and components of vehicles, scrap steel and related products and labour services by the Company (and its subsidiaries) from Shaanxi Automotive (and its associates)	6,420,000,000*	7,140,000,000*	7,830,000,000*

Note: Where a New Cap is marked "", that means the proposed New Caps for the relevant Continuing Connected Transactions (i) do not exceed the 5% Threshold and are exempt from the approval by the independent Shareholders under the Listing Rules; or (ii) are exempt from the approval by the independent Shareholders pursuant to Rule 14A.101 of the Listing Rules. However, since the relevant Continuing Connected Transactions constitute PRC Continuing Connected Transactions, the same are subject to the approval by the Shareholders at the EGM.*

DETAILS OF THE CONTINUING CONNECTED TRANSACTIONS AND THE RELEVANT NEW FRAMEWORK AGREEMENTS

A. Weichai Continuing Connected Transaction

Continuing connected transaction between Weichai Holdings (and its associates) and the Group

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.

Weichai Holdings

Weichai Holdings is principally engaged in the management, investment and the provision of general services. Weichai Holdings is a substantial shareholder of the Company holding approximately 16.30% of the issued share capital of the Company, and is accordingly a connected person of the Company.

To the best knowledge, information and belief of the Directors and having made all reasonable enquiries, Weichai Holdings is wholly-owned by Shandong Heavy Industry. Shandong Heavy Industry is one of the leading automobile and equipment groups in the PRC, and in turn a state-owned enterprise organised under the laws of the PRC with limited liability, and is ultimately governed and controlled by Shandong Provincial People's Government* (山東省人民政府).

Purchase of vehicles, parts and components of vehicles and related products, excavators, loaders, raw materials including gas and scrap metals etc., diesel engines and related products and processing services by the Company (and its subsidiaries) from Weichai Holdings (and its associates)

Agreement: New Weichai Holdings Purchase Agreement

Date: 30 August 2022

Parties: 1. The Company
2. Weichai Holdings

Term: 1 January 2023 to 31 December 2025

Other terms and details:

The terms of the New Weichai Holdings Purchase Agreement are substantially the same as those of the Existing Weichai Holdings Purchase Agreements.

Pursuant to the New Weichai Holdings Purchase Agreement, Weichai Holdings and its associates (as the case may be) shall provide vehicles, parts and components of vehicles and related products, excavators, loaders, raw materials including gas and scrap metals etc., diesel engines and related products and processing services to the Company and its subsidiaries (as the case may be) at market prices, for a term of three years ending 31 December 2025. Upon the expiry of the term of the agreement, the parties shall have an option to renew the agreement for a term of three years on a mutually agreed basis. Depending on terms of the definitive agreements to be entered into by the parties pursuant to the New Weichai Holdings Purchase Agreement, the relevant price for the said products and/or services shall, as the case maybe, be settled on a monthly or quarterly basis or in accordance with the progress of the provision of the relevant products and/or services.

The price of the said products and/or services shall be determined according to the following mechanism: the marketing department of the Company regularly conducts market research and analysis regarding specific products and/or services, in which a number of factors, including the overall market prices, market shares, ordering situation and performance of major competitors of such products and/or services, and an analysis report is compiled, 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 three years ending 31 December 2022 for the Weichai Continuing Connected Transaction set out in this sub-section A:

	2020	2021	2022
	<i>RMB</i>	<i>RMB</i>	<i>RMB</i>
Existing Cap	1,750,000,000	2,200,000,000	2,650,000,000

The table below summarises the actual transaction amounts involved for the two years ended 31 December 2021 (audited) and the six months ended 30 June 2022 (unaudited) for the Weichai Continuing Connected Transaction set out in this sub-section A:

	Year ended		Six months
	31 December		ended 30 June
	2020	2021	2022
	<i>RMB</i>	<i>RMB</i>	<i>RMB</i>
	<i>(audited)</i>	<i>(audited)</i>	<i>(unaudited)</i>
Actual transaction amount	1,093,423,000	1,179,122,000	85,040,457

The Board noted the substantial decrease in the transaction amount for the first half of 2022, which was mainly due to the acquisition of Weichai Import and Export by the Company, resulting in the transactions between Weichai Import and Export and the Company no longer being governed under the Existing Weichai Holdings Purchase Agreement.

With the constant release of drive from the Regional Comprehensive Economic Partnership and the ASEAN Economic Circle, in recent years, the East Asian and South Asian regions remain the world's most dynamic economies and will continue to be the global leaders in terms of economic growth rate. As the "Belt and Road" initiative continuously gains momentum, the African countries will continue to have strong demands for the products from China and there remains greater room for the overseas import and export businesses to grow. At the same time, the Company works intensively on the "Belt and Road" initiative and will make strategic adjustments to actively promote international capacity production, implement policies to achieve the carbon peaking and carbon neutrality goals, promote the upgrading of products in respect of emission standards, and attain breakthrough in the application in European and US markets, hence, it is expected that the Group's overseas operations will experience a rapid and substantial increase.

In view of the abovementioned adjustment of strategic goals, the operations of the Group, in particular, Weichai Import and Export, is expected to increase substantially from the second half of 2022, and therefore it is expected that the transaction amount for the Weichai Continuing Connected Transaction set out in this sub-section A will increase accordingly for the three years ending 31 December 2025. In light of the above, the Board considers that the sales volume of diesel engines will increase substantially for the three years ending 31 December 2025 as compared to the transaction amounts for the last two years and the first half of 2022.

The Company estimates that the transaction amounts in respect of the Weichai Continuing Connected Transaction set out in this sub-section for the three years ending 31 December 2025 will not exceed RMB2,180 million, RMB3,140 million and RMB4,110 million, respectively, and such amounts have accordingly been set as the proposed New Caps for this Weichai Continuing Connected Transaction.

The above proposed New Caps have been estimated by the Company primarily based on (i) the relevant historical costs, (ii) its estimate of the transaction volume of the said purchases, processing services and agency services in view of the implementation of the Group's sales plan for the years 2023 to 2025, which in turn are based on the production volume, material cost, processing cost and the volume of diesel engines to be sold and exported for the three years ending 31 December 2025, and (iii) the prospect of the diesel engine market as anticipated by the Company. Taking into account the relatively low utilisation rate of the relevant Existing Caps for 2021 and 2022, the Board proposed that New Cap for the year ending 31 December 2023 be adjusted downwards to RMB2,180 million from the Existing Cap of RMB2,650 million for the year ending 31 December 2022. Further, taking into account and on the basis of all the aforesaid factors, it is estimated that the overall transaction amount of the said purchase of products and services will increase by approximately 44.0% and 30.9% for each of the years ending 31 December 2024 and 31 December 2025, respectively.

The table below summarises the proposed New Caps for the Weichai Continuing Connected Transaction set out in this sub-section A for the three years ending 31 December 2025:

	2023	2024	2025
	<i>RMB</i>	<i>RMB</i>	<i>RMB</i>
New Cap	2,180,000,000	3,140,000,000	4,110,000,000

As the New Caps for this Weichai Continuing Connected Transaction do not exceed the 5% Threshold, this Weichai Continuing Connected 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 2025 is an Exempt Continuing Connected Transaction, the New Caps and the New Weichai Holdings Purchase Agreement are not subject to the approval of the independent Shareholders under the Listing Rules.

However, since this Weichai Continuing Connected Transaction constitutes a PRC Continuing Connected Transaction, the relevant New Caps and the New Framework Agreement are subject to the approval by the Shareholders at the EGM.

B. Shaanxi Automotive Continuing Connected Transactions

Continuing connected transactions between the Company and Shaanxi Zhongqi (and their subsidiaries) and Shaanxi Automotive (and its associates)

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.

Shaanxi Automotive

Shaanxi Automotive is engaged in the research and development, production, sale and services of vehicles and their parts and components. 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.

To the best knowledge, information and belief of the Directors having made all reasonable enquiries, Shaanxi Automotive is ultimately beneficially owned as to approximately 95.46% by a number of PRC government institutions including the State-owned Assets Supervision and Administration Commission of Shaanxi Provincial People's Government (陝西省人民政府國有資產監督管理委員會) and the Department of Finance of Shaanxi Province (陝西省財政廳) and as to approximately 4.54% by twelve natural persons.

1. Sale of vehicles, parts and components of vehicles, raw materials and related products and provision of the relevant services by the Company (and its subsidiaries) to Shaanxi Automotive (and its associates)

Agreement: New Shaanxi Automotive Sales Agreement

Date: 30 August 2022

Parties: 1. The Company
2. Shaanxi Automotive

Term: 1 January 2023 to 31 December 2025

Other terms and details:

The terms of the New Shaanxi Automotive Sales Agreement are substantially the same as those of the Existing Shaanxi Automotive Sales Agreement.

Pursuant to the New Shaanxi Automotive Sales Agreement, the Company and its subsidiaries (as the case may be) shall sell certain vehicles, parts and components of vehicles, raw materials and related products and to provide the relevant services to Shaanxi Automotive and its associates (as the case may be) on the same terms for a term of three years ending 31 December 2025, upon the expiry of which the parties may renew the term for another three years on a mutually agreed basis. Depending on terms of the definitive agreements to be entered into by the parties pursuant to the New Shaanxi Automotive Sales Agreement, the relevant price for the said products and/or services shall, as the case maybe, be settled on a monthly or quarterly basis or in accordance with the progress of the provision of the relevant products and/or services.

The sale price of the said products and/services is determined according to the following mechanism: the marketing department of the Company regularly conducts market research and analysis regarding specific products and/or services, in which a number of factors, including the overall market prices, market shares, ordering situation and performance of major competitors of such products and/or services, and an analysis report is compiled, 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 three years ending 31 December 2022 for the Shaanxi Automotive Continuing Connected Transaction set out in this sub-section B.1.:

	2020	2021	2022
	<i>RMB</i>	<i>RMB</i>	<i>RMB</i>
Existing Cap	2,950,000,000	5,200,000,000	5,850,000,000

The table below summarises the actual transaction amounts involved for the two years ended 31 December 2021 (audited) and the six months ended 30 June 2022 (unaudited) for the Shaanxi Automotive Continuing Connected Transaction set out in this sub-section B.1.:

	Year ended	Six months	
	31 December	ended 30 June	
	2020	2021	2022
	<i>RMB</i>	<i>RMB</i>	<i>RMB</i>
	<i>(audited)</i>	<i>(audited)</i>	<i>(unaudited)</i>
Actual transaction amount	2,621,739,000	2,951,833,000	1,105,887,452

In recent years, the State's macroeconomic policies and the rapid growth of fixed assets and infrastructure investments in the PRC have stimulated the development of the heavy-duty vehicles industry in the PRC. Hence, despite the economy of the PRC facing impacts of the uncertainties under COVID-19, the Board maintains a cautiously optimistic view about the development of the heavy-duty vehicles market.

Since the Company and its subsidiaries are engaged in the business of the production of heavy-duty vehicles and related products, the Directors believe that the demand for high-speed, heavy-duty vehicles, vehicle parts and components and heat processing services produced and provided by these Group companies will continue to increase and the volume of such products to be purchased by Shaanxi Automotive and/or its associates (as the case may be) for onward sale to third parties will increase correspondingly. In addition to direct sales of vehicles to third party buyers by Shaanxi Automotive and/or its associates (as the case may be), Deyin Finance also arranges for lease financing of vehicles for the third party buyers for the purpose of promoting the sales of Shaanxi Zhongqi's vehicles and enhancing its market share in the PRC.

The Company estimates that the transaction amount in respect of the Continuing Connected Transaction set out in this sub-section B.1. will not exceed RMB5,740 million, RMB6,240 million and RMB6,740 million, respectively, for each of the three years ending 31 December 2025 and such amounts have accordingly been set as the New Caps for this Shaanxi Automotive Continuing Connected Transaction.

The above proposed New Caps have been estimated by the Company primarily based on (i) the relevant historical transaction amounts, (ii) the estimate of the volume and amount of the said vehicles and parts and components of vehicles to be sold and the amount of the relevant services to be provided by the Company and its subsidiaries (as the case may be) in view of the recent increase in the price of the raw materials as well as the implementation of the Group's strategic plan for the years 2023 to 2025, which involves a further expansion of its sales in particular in respect of the commercial vehicle sector, (iii) the estimated average unit price of the said vehicles, and (iv) an estimate of market fluctuations during the term of the New Shaanxi Automotive Sales Agreement. Taking into account the lower than expected utilisation rate of the relevant Existing Caps for 2021 and 2022, the Board proposed that New Cap for the year ending 31 December 2023 be set at RMB5,740 million, being slightly adjusted downwards from the Existing Cap of RMB5,850 million for the year ending 31 December 2022. Further, taking into account and on the basis of all the aforesaid factors, it is estimated that the overall transaction amount of the said sale and provision of service will increase by approximately 8.7% and 8.0% for each of the years ending 31 December 2024 and 31 December 2025, respectively.

The table below summarises the proposed New Caps for the Shaanxi Automotive Continuing Connected Transaction set out in this sub-section B.1. for the three years ending 31 December 2025:

	2023 <i>RMB</i>	2024 <i>RMB</i>	2025 <i>RMB</i>
New Cap	5,740,000,000	6,240,000,000	6,740,000,000

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 Shaanxi Automotive Continuing Connected Transaction; and (iii) the independent non-executive Directors have confirmed that the terms of this Shaanxi Automotive 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 Shaanxi Automotive 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 Shaanxi Automotive Continuing Connected Transaction for the three years ending 31 December 2025 is an Exempt Continuing Connected Transaction, the New Shaanxi Automotive Sales Agreement is not subject to the approval of the independent Shareholders under the Listing Rules.

However, since this Shaanxi Automotive Continuing Connected Transaction constitutes a PRC Continuing Connected Transaction, the relevant New Caps and the New Shaanxi Automotive Sales Agreement are subject to the approval by the Shareholders at the EGM.

2. *Purchase of parts and components of vehicles, scrap steel and related products and labour services by the Company (and its subsidiaries) from Shaanxi Automotive (and its associates)*

Agreement: New Shaanxi Automotive Purchase Agreement

Date: 30 August 2022

Parties: 1. The Company
2. Shaanxi Automotive

Term: 1 January 2023 to 31 December 2025

Other terms and details:

The terms of the New Shaanxi Automotive Purchase Agreement are substantially the same as those of the Existing Shaanxi Automotive Purchase Agreement.

Pursuant to the New Shaanxi Automotive Purchase Agreement, each of the Company and its subsidiaries (as the case may be) shall purchase certain parts and components of vehicles, scrap steel and related products and labour services from Shaanxi Automotive and its associates (as the case may be) for a term of three years ending 31 December 2025, upon the expiry of which the parties may renew the term for another three years on a mutually agreed basis. Depending on terms of the definitive agreements to be entered into by the parties pursuant to the New Shaanxi Automotive Purchase Agreement, the relevant price for the said products and/or services shall, as the case maybe, be settled on a monthly or quarterly basis or in accordance with the progress of the provision of the relevant products and/or services.

The purchase price of the said products and/or services is determined according to the following mechanism: the marketing department of the Company regularly conducts market research and analysis regarding specific products and/or services, in which a number of factors, including the overall market prices, market shares, ordering situation and performance of major competitors of such products and/or services, and an analysis report is compiled, 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 three years ending 31 December 2022 for the Shaanxi Automotive Continuing Connected Transaction set out in this sub-section B.2.:

	2020	2021	2022
	<i>RMB</i>	<i>RMB</i>	<i>RMB</i>
Existing Cap	13,300,000,000	13,700,000,000	14,100,000,000

The table below summarises the actual aggregate transaction amounts involved for the two years ended 31 December 2021 (audited) and the six months ended 30 June 2022 (unaudited) for the Shaanxi Automotive Continuing Connected Transaction set out in this sub-section B.2.:

	Year ended		Six months
	31 December		ended 30 June
	2020	2021	2022
	<i>RMB</i>	<i>RMB</i>	<i>RMB</i>
	<i>(audited)</i>	<i>(audited)</i>	<i>(unaudited)</i>
Actual transaction amount	11,801,831,000	9,979,272,000	1,918,792,435

Since Shaanxi Zhongqi and its subsidiaries are principally engaged in the manufacture and sale of heavy-duty vehicles and related products and in view of the weak demand within the heavy-duty vehicles industry for the first half of 2022, the Group's performance in respect of heavy-duty vehicles decreased substantially.

Despite the economy of the PRC facing downward pressure, the potential of and fundamentals for a long-term economic upturn have not changed. While the short-term downturn is mainly due to the impact of non-economic factors, market expectations and confidence are expected to recover due to the optimisation of epidemic prevention policies, the implementation of measures to stabilise the economy and boost consumption and the accelerated recovery of infrastructure investment. Under the influence of favorable factors such as the recovery of logistics and transportation, support from infrastructure and the implementation of relevant supporting policies, part of the suppressed demand in the heavy-duty truck market will be released and rebound from the bottom. The Board maintains a cautiously optimistic view about the development of the heavy-duty vehicles market.

The Directors believe that the demand for the products of Shaanxi Zhongqi and its subsidiaries in view of the transaction amount of this Continuing Connected Transaction for the first six months of 2022 and as affected by the above factors, and, in turn, the volume of parts and components required from Shaanxi Automotive and/or its associates for the production of such products, will gradually recover and increase mildly for the three years ending 31 December 2025.

The Company estimates that the transaction amounts in respect of the Continuing Connected Transaction set out in this sub-section B.2. will not exceed RMB6,420 million, RMB7,140 million and RMB7,830 million, respectively, for each of the three years ending 31 December 2025 and such amounts have accordingly been set as the New Caps for this Shaanxi Automotive Continuing Connected Transaction.

The above proposed New Caps have been estimated by the Company primarily based on (i) the relevant historical transaction amounts; and (ii) the estimated increase in the volume and price of the parts and components of vehicles to be purchased by the Company and its subsidiaries, in particular, Shaanxi Zhongqi and its subsidiaries (as the case may be) in view of the implementation of the Group's strategic plan for the years 2023 to 2025, which involves a further expansion of its sales, in particular, in respect of the commercial vehicle sector, and the mass production of the China series VI engines. Taking into account the expected low utilisation rate of the relevant Existing Caps for the year ending 2022, the Board proposed that New Cap for the year ending 31 December 2023 be adjusted downwards to RMB6,420 million from the Existing Cap of RMB14,100 million for the year ending 31 December 2022. Further, 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 11.2% and 9.7% for each of the years ending 31 December 2024 and 31 December 2025, respectively.

The table below summarises the proposed New Caps for the Shaanxi Automotive Continuing Connected Transaction set out in this sub-section B.2. for the three years ending 31 December 2025:

	2023	2024	2025
	<i>RMB</i>	<i>RMB</i>	<i>RMB</i>
New Cap	6,420,000,000	7,140,000,000	7,830,000,000

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 Shaanxi Automotive Continuing Connected Transaction; and (iii) the independent non-executive Directors have confirmed that the terms of this Shaanxi Automotive 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 Shaanxi Automotive 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 Shaanxi Automotive Continuing Connected Transaction for the three years ending 31 December 2025 is an Exempt Continuing Connected Transaction, the New Shaanxi Automotive Purchase Agreement is not subject to the approval of the independent Shareholders under the Listing Rules.

However, since this Shaanxi Automotive Continuing Connected Transaction constitutes a PRC Continuing Connected Transaction, the relevant New Caps and the New Shaanxi Automotive Purchase Agreement are subject to the approval by the Shareholders 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. 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 Weichai Continuing Connected Transaction between the Company 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, such Weichai Continuing Connected Transaction has been continuing since the listing of the Company on the Stock Exchange.

As the Company has conducted the Weichai 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 the Weichai 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 Weichai Continuing Connected Transaction.

As prior to completion of the Merger, Shaanxi Zhongqi has conducted the Shaanxi Automotive Continuing Connected Transactions with Shaanxi Automotive (and its associates) (as the case may be) for many years and the Company has taken up such Shaanxi Automotive Continuing Connected Transactions 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 Shaanxi Automotive Continuing Connected Transactions in order to ensure and maximise operating efficiency and stability of the operations of the Group.

The Directors (including the independent non-executive Directors) 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 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 Directors (including the independent non-executive Directors) 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 30 August 2022 approving, *inter alia*, the Continuing Connected Transactions, the following Directors have abstained from voting on the resolutions in respect of certain Continuing Connected Transactions as follows, for the reasons of their respective interest and/or position (as the case may be) in the relevant connected persons:

1. Continuing Connected Transaction with Weichai Holdings (and its associates) set out under section II.A. in this announcement — Tan Xuguang, Jiang Kui, Zhang Quan, Xu Xinyu, Sun Shaojun; and
2. Continuing Connected Transactions with Shaanxi Automotive (and its associates) set out under section II.B. in this announcement — Yuan Hongming.

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

As the highest percentage ratios calculated in accordance with the Listing Rules for the Weichai Continuing Connected Transaction exceeds the 0.1% Threshold but do not exceed the 5% Threshold, the Weichai Continuing Connected Transaction is subject to the reporting, announcement and annual review requirements of Chapter 14A of the Listing Rules but is exempt from the independent Shareholders' approval under the Listing Rules. However, according to the relevant laws and regulations of the PRC and the Shenzhen Listing Rules, such Weichai Continuing Connected Transaction constitutes a PRC Continuing Connected Transactions and is subject to the approval by Shareholders at the EGM.

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 Shaanxi Automotive Continuing Connected Transactions; and (iii) the independent non-executive Directors have confirmed that the terms of the Shaanxi Automotive Continuing Connected Transactions 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 Shaanxi Automotive Continuing Connected Transactions are subject to the reporting and announcement requirements but are exempt from circular, independent financial advice and shareholders' approval requirements pursuant to Rule 14A.101 of the Listing Rules. However, according to the relevant laws and regulations of the PRC and the Shenzhen Listing Rules, such Shaanxi Automotive Continuing Connected Transactions constitute PRC Continuing Connected Transactions and are subject to the approval by the Shareholders at the EGM.

IV. PRC CONTINUING CONNECTED TRANSACTION

As set out in announcement of the Company dated 2 August 2019, in addition to the Continuing Connected Transactions, certain transactions have been conducted between the Group and Weichai Holdings in the ordinary course of the Group's business.

On 30 August 2022, the Company has entered into the New Weichai General Services Agreement with Weichai Holdings, the terms of which are substantially the same as those of the Existing Weichai Holdings General Services Agreements, and pursuant to which proposed new caps for the three years ending 31 December 2025 are set.

The proposed new caps for of such transaction for the term from 1 January 2023 to 31 December 2025 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, such transaction 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, such continuing connected transaction constitutes a PRC Connected Transaction and is subject to the approval of the Shareholders. For further details of such PRC Continuing Connected Transaction and the New Weichai General Services Agreement, please refer to the announcement of the Company dated 30 August 2022 on the website of The Shenzhen Stock Exchange.

Summary of the PRC Continuing Connected Transaction and the proposed new caps

The PRC Continuing Connected Transaction as referred to above is summarised below:

Name of connected Person	Name of Group Company	Connected person's relationship with the Group	Nature of the connected transaction with the Group
Weichai Holdings (and its associates)	The Company (and its subsidiaries)	Holder of 16.30% of the equity of the Company	Provision of general services and labour services by Weichai Holdings (and its associates) to the Company (and its subsidiaries)

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

Details of the relevant PRC

Continuing Connected Transaction

	Proposed new caps		
	For the year ending 31 December 2023	For the year ending 31 December 2024	For the year ending 31 December 2025
	<i>RMB</i>	<i>RMB</i>	<i>RMB</i>
Provision of general services and labour services by Weichai Holdings (and its associates) to the Company (and its subsidiaries)	53,000,000	61,000,000	63,000,000

V. 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)(a) of the Listing Rules
“associate(s)”	has the meaning ascribed thereto under the Listing Rules
“Board”	the board of Directors
“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 wholly-owned subsidiary of Weichai Holdings
“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(s)”	the continuing connected transaction(s) of the Group set out in the section headed “II. Continuing Connected Transactions” in this announcement, comprising the Weichai Continuing Connected Transaction and the Shaanxi Automotive Continuing Connected Transactions
“Deyin Finance”	德銀融資租賃有限公司 (Deyin Finance Lease Co., Ltd.*), a company established in the PRC and indirectly controlled by Shaanxi Automotive
“Director(s)”	the director(s) of the Company
“EGM”	the extraordinary general meeting of the Company to be held to consider and, if thought fit, approve, <i>inter alia</i> , the New Caps and the New Framework Agreements in respect of the PRC Continuing Connected Transactions

“Exempt Continuing Connected Transactions”	being those Continuing Connected Transactions 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, and, where such New Caps exceed the 0.1% Threshold, are only subject to the reporting, announcement and annual review requirements of Chapter 14A of the Listing Rules
“Existing Cap(s)”	the existing cap(s) for the Continuing Connected Transactions set out in the section headed “II. Continuing Connected Transactions” in this announcement
“Existing Framework Agreements”	the Existing Weichai Holdings Purchase Agreement, the Existing Shaanxi Automotive Sales Agreement and the Existing Shaanxi Automotive Purchase Agreement, and “Existing Framework Agreement” means any of them
“Existing Shaanxi Automotive Purchase Agreement”	the parts and components and scrap steel purchase agreement between the Company (and certain of its subsidiaries) and Shaanxi Automotive (and certain of its associates) dated 1 August 2007 (as amended and supplemented on 27 November 2008, 23 August 2010, 29 August 2013, 29 April 2014, 30 August 2016, 14 July 2017 and 2 August 2019), details of which are disclosed in section II.B.2. of the announcement of the Company dated 2 August 2019
“Existing Shaanxi Automotive Sales Agreement”	the vehicles, parts and components and raw materials sale and heat processing services agreement between the Company (and certain of its subsidiaries) and Shaanxi Automotive (and certain of its associates) dated 1 August 2007 (as amended and supplemented on 27 November 2008, 23 August 2010, 30 August 2012, 29 April 2014, 30 August 2016, 1 June 2018, 2 August 2019 and 30 July 2021), details of which are disclosed in the announcement of the Company dated 30 July 2021

“Existing Weichai Holdings General Services Agreements”	<p>(i) the general services agreement between the Company and Weichai Holdings dated 17 November 2003 (as amended and supplemented on 12 January 2004, 2 February 2004, 15 September 2004, 21 September 2005, 12 November 2006, 27 November 2008, 23 August 2010, 29 August 2011, 29 August 2013, 30 August 2016 and 2 August 2019), and</p> <p>(ii) the general services agreement between the Company and Chongqing Weichai dated 17 November 2003 (as amended and supplemented on 15 September 2004, 21 September 2005, 12 November 2006, 27 November 2008, 23 August 2010, 29 August 2011, 29 August 2013, 30 August 2016 and 2 August 2019),</p> <p>details of which are disclosed in section II.A.1. of the announcement of the Company dated 2 August 2019</p>
“Existing Weichai Holdings Purchase Agreement”	<p>the diesel engine parts and components, gas, scrap metal, etc., materials and related products purchase and processing services agreement between (i) the Company and (ii) Weichai Holdings and Chongqing Weichai dated 27 November 2008 (as supplemented on dated 23 August 2010, 29 August 2011, 29 August 2013, 27 August 2015, 30 August 2016 and 2 August 2019), details of which are disclosed in section II.A.2. of the announcement of the Company dated 2 August 2019</p>
“Group”	<p>the Company and its subsidiaries, and “Group Company” means any of the same</p>
“Listing Rules”	<p>the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited</p>
“Merger”	<p>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</p>
“New Cap(s)”	<p>the new annual cap(s) to the Continuing Connected Transactions as set out in the section headed “II. Continuing Connected Transactions” in this announcement</p>

“New Framework Agreements”	the new framework 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. Continuing Connected Transactions” in this announcement and “New Framework Agreement” means any of them
“New Shaanxi Automotive Purchase Agreement”	the purchase agreement entered into between the Company and Shaanxi Automotive on 30 August 2022 as more particularly set out in section II.B.2. in this announcement
“New Shaanxi Automotive Sales Agreement”	the sales agreement entered into between the Company and Shaanxi Automotive on 30 August 2022 as more particularly set out in section II.B.1. in this announcement
“New Weichai Holdings General Services Agreement”	the services purchase agreement entered into between the Company and Weichai Holdings on 30 August 2022 as more particularly set out in section IV. in this announcement
“New Weichai Holdings Purchase Agreement”	the product and services purchase agreement entered into between the Company and Weichai Holdings on 30 August 2022 as more particularly set out in section II.A. in this announcement
“PRC”	the People’s Republic of China
“PRC Continuing Connected Transactions”	the transactions set out under the sections II.A., II.B. and IV. in this announcement, which constitute continuing connected transactions of the Company under the relevant laws and regulations of the PRC and the Shenzhen Listing Rules and are subject to the approval by the Shareholders at the EGM. 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”) dated 30 August 2022 on the Shenzhen Stock Exchange
“RMB”	Renminbi, the lawful currency of the PRC
“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 Automotive Continuing Connected Transaction(s)”	the Continuing Connected Transaction(s) under section II.B. of this announcement
“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 51% 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
“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
“Weichai Continuing Connected Transaction”	the Continuing Connected Transaction under section II.A. of this announcement
“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 and a subsidiary of the Company
“%”	per cent

* For identification purposes only

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

Hong Kong, 30 August 2022

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. Zhang Liangfu, Mr. Jiang Kui, Mr. Gordon Riske and Mr. Michael Martin Macht; and the independent non-executive Directors of the Company are Mr. Li Hongwu, Mr. Wen Daocai, Ms. Jiang Yan, Mr. Yu Zhuoping and Ms. Zhao Huifang.