

TRINITY

Trinity Corporate Finance Limited

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Hong Kong.

30 November 2023

*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 and the relevant New Caps, details of which are set out in the letter from the Board (the “**Letter from the Board**”) in the Company’s circular dated 30 November 2023 (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.

The Board announced that on 30 August 2023, the Group entered into the New Framework Agreements in respect of the Continuing Connected Transactions as more particularly described in the Letter from the Board.

As the highest percentage ratio calculated in accordance with the Listing Rules for the Continuing Connected Transactions as set out in sub-sections II.1, II.2.(a), (b) and (c), and II.3.(a) and (b) in the Letter from the Board exceeds the 5% Threshold on an aggregated basis, such Continuing Connected Transactions constitute Non-exempt Continuing Connected Transactions of the Company and their respective New Framework Agreement and 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.

The Independent Board Committee, comprising all the independent non-executive Directors, (namely, Ms. Jiang Yan, Mr. Yu Zhuoping, Mr. Chi Deqiang, Mr. Zhao Fuquan and Mr. Xu Bing) has been appointed to consider the terms of the Non-exempt Continuing Connected Transactions and the relevant New Caps, and to advise the Independent Shareholders as to whether the terms therein are fair and reasonable and on how to vote on the relevant resolution(s) at the EGM, taking into account the recommendations of the Independent

Financial Adviser. 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.

As at the Latest Practicable Date, Trinity Corporate Finance Limited did not have any relationships or interests with the Company or any other parties that could reasonably be regarded as relevant to the independence of Trinity Corporate Finance Limited. In the last two years, Trinity Corporate Finance Limited has acted as an independent financial adviser to the then independent board committee and independent shareholders of the Company in relation to the discloseable and connected transaction in respect of Weichai Lovol Heavy Industry Co., Ltd. announced on 18 April 2022 (details of which were set out in the circular of the Company dated 16 May 2022), the non-exempt continuing connected transaction announced on 30 March 2022 (details of which were set out in the circular of the Company dated 26 May 2022) and the non-exempt continuing connected transaction in respect of Weichai Power Freshen Air Technology Co., Ltd. announced on 23 November 2022 (details of which were set out in the circular of the Company dated 8 December 2022). Apart from normal professional fees paid or payable to us in connection with such appointment, no arrangements exist whereby we had received or will receive any fees or benefits from the Company or any other party to the transactions, therefore we consider such relationship would not affect our independence.

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 Non-exempt Continuing Connected Transactions.

In accordance with Rule 13.80 of the Listing Rules, to formulate our opinion, we have independently reviewed, inter alia, the 2022 annual report and 2023 interim results announcement of the Company, the historical transaction amounts, the Letter from the Board, the samples of transactions of the Company relating to the New Framework Agreements and the Group's sales plan for 2024-26.

This letter is issued to the Independent Board Committee and the Independent Shareholders solely in connection with their consideration of the Non-exempt Continuing Connected Transactions and the relevant New Caps 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, without our prior written consent.

PRINCIPAL FACTORS AND REASONS CONSIDERED

In formulating our opinion regarding the Non-exempt Continuing Connected Transactions and the relevant New Caps, we have taken into account the following principal factors and reasons:

A. 1. Financial performance of the Company

As disclosed in the annual report of the Company for the financial year ended 31 December 2022, the Company's revenue decreased by 20.5% as compared with that in the corresponding period of 2021 to approximately RMB175,158 million. Net profit attributable to the shareholders of the company amounted to approximately RMB4,905 million, representing a decrease of approximately 48.3% as compared with that in the corresponding period of 2021. Basic earnings per share was RMB0.57, representing a decrease of approximately 50.0% as compared with that in the corresponding period of 2021.

According to the Company's interim results announcement for the six months ended 30 June 2023 (the "**2023 Interim Results Announcement**"), the Company's revenue amounted to approximately RMB106,135 million, an increase of approximately 22.3% and net profit attributable to the shareholders of the Company amounted to approximately RMB3,899 million, an increase of approximately 63.1% as compared with that in the corresponding period of 2022.

2. Outlook and prospects

According to the Chairman's Statement set out in the Company's 2023 Interim Results Announcement, the recovery of global economy has been characterised by prominent differentiation, and different economies and industries have shown an "unevenly hot and cold" trend. The domestic economic operation entered a plateau phase after experiencing a pulse recovery at the beginning of the year. Under the combined effect of economic recovery and improvement, continuous release of policy effect and lower base in the corresponding period of last year, there were more favorable factors for the development of the industry.

However, affected by factors such as the complicated and severe international environment and insufficient domestic demand, the industry was still facing great pressure. From January to June 2023, the heavy-duty truck industry of China delivered a sales volume of 488,000 units, representing a year-on-year increase of 29%; the construction machinery industry delivered a sales volume of 379,000 units (including 188,000 units of diesel forklift trucks), representing a year-on-year decrease of 12%; the agricultural equipment industry delivered a sales volume of 227,000 units, representing a year-on-year decrease of 17.4%.

B. Principal Terms of the Non-exempt Continuing Connected Transactions

The Continuing Connected Transactions include the following which are Non-exempt 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
1. Weichai Holdings (and its Associates)	The Company (and its subsidiaries)	Holder of 16.30% of the equity of the Company	Sale of diesel engines, diesel engine parts and components, materials, semi-finished products, hydraulic products and related products and provision of related services by the Company (and its subsidiaries) to Weichai Holdings (and its Associates)
2. Yangzhou Yaxing (and its subsidiaries)	The Company (and its subsidiaries)	Yangzhou Yaxing is indirectly held as to 62.31% by Weichai Holdings	(a) Sale of engines, new energy powertrain and related products by the Company (and its subsidiaries) to Yangzhou Yaxing (and its subsidiaries)
	SFGC (note 1)		(b) Sale of transmissions and related products by SFGC to Yangzhou Yaxing (and its subsidiaries)
	Hande Axle (note 2)		(c) Sale of axles and related products by Hande Axle to Yangzhou Yaxing (and its subsidiaries)

Name of connected person	Name of Group Company	Connected person's relationship with the Group	Nature of the connected transaction with the Group
3. Weichai Westport	The Company (and its subsidiaries and/or associates)	Weichai Westport is held as to 51% by Weichai Holdings	<p>(a) Supply of base engines, gas engine parts, utility and labour services, technology development services and related products and services by the Company (and its subsidiaries and/or associates) to Weichai Westport</p> <p>(b) Purchase of gas engines, gas engine parts, labour services and related products and services by the Company (and its subsidiaries and/or associates) from Weichai Westport</p>

Notes:

1. SFGC is a 51% subsidiary of the Company.
2. Hande Axle is held as to approximately 3.06% by the Company and as to approximately 94% by Shaanxi Zhongqi, which is a 51% subsidiary of the Company.

C. Proposed New Caps

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

Connected person and details of the relevant Continuing Connected Transactions	Proposed New Caps		
	2024 RMB	2025 RMB	2026 RMB
1. Weichai Holdings (and its Associates)			
Sale of diesel engines, diesel engine parts and components, materials, semi-finished products, hydraulic products and related products and provision of related services by the Company (and its subsidiaries) to Weichai Holdings (and its Associates)	6,503,000,000	6,725,000,000	7,102,000,000

Connected person and details of the relevant Continuing Connected Transactions	Proposed New Caps		
	2024 RMB	2025 RMB	2026 RMB
2. Yangzhou Yaxing and its subsidiaries			
(a) Sale of engines, new energy powertrain and related products by the Company and its subsidiaries to Yangzhou Yaxing and its subsidiaries	83,000,000	117,000,000	145,000,000
(b) Sale of transmissions by SFGC to Yangzhou Yaxing and its subsidiaries	8,000,000	9,000,000	10,000,000
(c) Sale of axles and related products by Hande Axle to Yangzhou Yaxing and its subsidiaries	23,000,000	26,000,000	29,000,000
3. Weichai Westport			
(a) Supply of base engines, gas engine parts, utility and labour services, technology development services and related products and services by the Company (and its subsidiaries and/or associates) to Weichai Westport	896,000,000	906,000,000	935,000,000
(b) Purchase of gas engines, gas engine parts, labour services and related products and services by the Company (and its subsidiaries and/or associates) from Weichai Westport	4,644,000,000	4,656,000,000	4,704,000,000

Note:

- For the purposes of ascertaining whether a Continuing Connected Transaction would exceed the 5% Threshold, the transactions under paragraphs 1, 2.(a), 2.(b), 2.(c) and 3.(a) have been aggregated and the transaction under paragraph 3.(b) has been aggregated with the transactions as disclosed in the announcement of the Company dated 27 January 2022.

D. Details of the New Framework Agreements, Existing Caps and historical amounts of the Non-exempt 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.

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

Hande Axle is principally engaged in the research and development, production, sale and services of vehicle axles and their parts and components. Hande Axle is held as to approximately 3.06% by the Company and as to approximately 94% by Shaanxi Zhongqi, which is a 51% subsidiary of the Company.

1. *Continuing Connected Transactions between Weichai Holdings (and its Associates) and the Group*

Weichai Holdings and its associates

Weichai Holdings is principally engaged in the management, investment and the provision of general services. 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 organized under the laws of the PRC with limited liability, and is ultimately governed and controlled by the Shandong Provincial People's Government.

Weichai Holdings is a substantial shareholder of the Company, and is accordingly a connected person of the Company.

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

Agreement:	New Weichai Sale and Processing Services Agreement
Date:	30 August 2023
Parties:	1. The Company 2. Weichai Holdings
Term:	1 January 2024 to 31 December 2026
Other terms and details:	The terms of the New Weichai Sale and Processing Services Agreement are substantially the same as those of the Existing Weichai Sale and Processing Services Agreement.

Pursuant to the New Weichai Sale and Processing Services Agreement, the Company and its subsidiaries (as the case may be) shall sell diesel engines, diesel engine parts and components, materials, semi-finished products, hydraulic products and related products and to provide the related services (as the case may be) to Weichai Holdings and its Associates (as the case may be) at market prices and/or prices agreed according to the principle of fairness and reasonableness, for a term of three years ending 31 December 2026. Depending on the terms of the definitive agreements to be entered into by the parties, the relevant price for the relevant 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. 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.

Price determination and internal control procedures

According to the Letter from the Board, the price of the said products shall be determined according to the following mechanism: the sales department of the Group normally conducts market research and analysis regarding specific products on at least an annual basis, 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, submits a price suggestion after its analysis to the Group's price management department and the final prices are determined at arm's length negotiation among the parties. The price management department of the Group regularly reviews the reasonableness of prices and makes amendments when necessary.

We have reviewed the market research conducted by the Company on the comparison of pricing by product and by business segment with other major players in the same industry and also the monthly report on the impact of recent economic data and government policies on the industry outlook prepared by the Company, which demonstrated how the Company ascertained the market price and material terms during the price determination process. Also, we have reviewed the monthly monitoring report on the accumulated annual transaction amount of the Continuing Connected Transactions prepared by the Group's finance department, which compared such accumulated annual transaction amount of each Continuing Connected Transaction against the respective pre-approved cap. We note that if any accumulated annual transaction amount of any such Continuing Connected Transaction exceeds 70% of the pre-approved annual cap, the relevant Continuing Connected Transaction shall be reported to the Company's board office for monitoring, follow-up and, if necessary, revision of the annual cap in accordance with the requirements of the Listing Rules. On the basis of the above, we are of the view that (i) the Group's internal control measures in place as stated above are effective; and (ii) such internal control measures have ensured the terms of the Continuing Connected Transactions will be no less favourable than those entered into between the Group and the independent third parties.

In addition, we have reviewed two samples of transactions selected from the transactions conducted with the Company's related party, of which the selection criteria is being selected by the Company on a random basis, to confirm that the relevant transaction prices were at or better than normal commercial terms offered to independent third parties. As the selection criteria has adequately covered the transactions relating to the sale of diesel engines, diesel engine parts and components, materials, semi-finished products, hydraulic products and related products and provision of related services by the Company (and its subsidiaries) to Weichai Holdings (and its Associates), we consider that the selected sample size is adequate, sufficient, fair and representative in concluding our view that the above pricing policy was properly followed. In addition, we note that the Company's independent non-executive Directors, the internal audit team and the auditors of the Company review the transactions in relation to the New Framework Agreements on an annual basis. Accordingly, we are of the view that the terms of the transactions between the Company and its related parties are fair and reasonable so far as the Company and the Independent Shareholders are concerned and the Company's internal control measures are able to ensure that the Continuing Connected Transactions are made on terms no less favourable to the Group as compared to those available to independent third parties.

The Directors are of the view that the abovementioned methods and procedures under the pricing policies, which are consistent with those applied to independent third party customers, 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 and we concur that such methods and procedures will ensure that the Company will obtain terms, including market price, which are on normal commercial terms or better.

The table below summarises the Existing Caps for the Continuing Connected Transaction set out in this sub-section 1. for the three years ending 31 December 2023:

	2021	2022	2023
	<i>RMB</i>	<i>RMB</i>	<i>RMB</i>
Existing Cap	3,900,000,000	5,200,000,000	6,900,000,000

The table below summarises the actual transaction amounts for each of the two years ended 31 December 2022 (audited) and the nine months ended 30 September 2023 (unaudited) for the Continuing Connected Transaction set out in this sub-section 1. and the relevant utilisation rates of each of the relevant Existing Caps:

	For the year ended 31 December 2021 RMB (audited)	For the year ended 31 December 2022 RMB (audited)	For the nine months ended 30 September 2023 RMB (unaudited)
Actual transaction amount	3,162,102,630	2,939,648,571	3,260,577,946
Utilisation Rate (%)	81.08	56.53	63.01*

* Calculated after adjustment of the Existing Cap for nine months on a pro-rata basis.

The Group sells diesel engines, diesel engine parts and components, materials, semi-finished products, hydraulic products and related products and provides related services to Weichai Holdings and its associates pursuant to the Existing Weichai Sale and Processing Services Agreement. In 2022, impacted by the pandemic control policies, the recovery of the economy has been slower than expected. With the sluggish economic market conditions and the over satisfaction of demands in earlier years, there existed a large volume of vehicles in operation and the intention of purchasing new vehicles for replacement is generally weak. Such substantive drop in demands for vehicles had, in turn, affected the demand for engines. Based on the statistics published by the China Association of Automobile Manufacturers, the volume of sales of trucks in 2022 suffered a year-to-year drop of 32.6%, amongst which, the volume of sales of heavy duty trucks dropped by 51.8%. Affected by such market conditions as a whole, the sales of the Group had also dropped in 2022. Thereafter, for the nine months ended 30 September 2023, as the economy and society fully resumed normal operations and the effect of macro-policies unleashed significantly, the national economy began to rebound, and the heavy-duty truck market, in turn, performed generally well for the nine months ended 30 September 2023. Along with such improvement in market conditions, the sales of the Group to Weichai Holdings and its associates had also improved for the nine months ended 30 September 2023. The actual transaction amount for the nine months ended 30 September 2023 represents an increase of approximately 10.9% compared to that for the year ended 31 December 2022, and the annualised transaction amount for the year ending 31 December 2023 (based on the actual transaction amount for the nine months ended 30 September 2023) represents an increase of 47.9% compared to the historical transaction amount for the year ended 31 December 2022.

As shown above, the utilisation rates of the actual transaction amount compared to the Existing Caps for the two financial years ended on 31 December 2022 were relatively high at approximately 81.08% and 56.53% respectively, and the utilisation rate for the nine months ended 30 September 2023 was also within this range, at approximately 63.01% (after adjustment of the Existing Cap for nine months on a pro-rata basis). Having considered the utilisation rates of the Existing Caps for the two years ended 31 December 2022 and the nine months ended 30 September 2023, the Company has reduced the proposed New Cap for the year ending 31 December 2024 to RMB6,503,000,000 from RMB6,900,000,000 for the year ending 31 December 2023. We consider that such downward adjustment is fair and reasonable.

The Company estimates that the transaction amounts for the Continuing Connected Transaction set out in this sub-section 1. for the three years ending 31 December 2026 will not exceed RMB6,503 million, RMB6,725 million and RMB7,102 million, respectively, and such amounts have accordingly been set as the proposed New Caps for this Continuing Connected Transaction.

Basis of computation of New Caps

Taking into account the existing utilisation rate of the relevant Existing Caps, the proposed New Cap of this Continuing Connected Transaction for the year ending 31 December 2024 have been adjusted downwards from that for the year ending 31 December 2023 from RMB6,900,000,000 to RMB6,503,000,000.

In addition, the above proposed New Caps have been estimated by the Company based on (i) the relevant historical transaction amounts, in particular, the annualised transaction amount for the year ending 31 December 2023 represents an increase of 47.9% compared to the historical transaction amount for the year ended 31 December 2022; (ii) the Company's research of the market conditions and the expected sales plan of the Group for the three years ending 31 December 2026 that, in particular, (a) in respect of diesel engines, in line with the positive trend in the strategic development of smart agricultural equipment and the support of the relevant governmental policies, the sales of the Group to Weichai Holdings and its Associates for the nine months ended 30 September 2023 amounted a year-on-year growth of 50%. It is expected that the sales of diesel engines will further increase by 15% in 2024 as compared with the expected full year sales in 2023; (b) in respect of hydraulics products, with the development of new products in 2023 which is expected to be launched for use in 2024, the sales is expected to improve significantly by 127% in 2024 due to the mass production of such products and their auxiliary products and by a further 10% per annum for years 2025 and 2026 upon the Group's expansion of the hydraulics markets; (c) the sales plans of the Group, in particular, in respect of the sales to Weichai Holdings and its Associates, to further improve its sales of construction equipment by 30% in 2024 as compared to that in 2023; and (iii) the estimate of the number of diesel engines, diesel engine parts and components, materials, semi-finished products and hydraulic products required by Weichai Holdings and its associates (as the case may be) in view of the

implementation of the Group's sales plan for the years 2024 to 2026, having taken into account the estimated market conditions and export performance, the average unit prices of the same, and the costs of the related services to be provided.

We have discussed with the Company and understand that in 2022, affected by the market conditions as elaborated above, there has been a relatively significant drop in the engine industry as a whole. In the first nine months of 2023, the actual transaction amount for the transaction has already amounted to RMB3,261 million, which the Board considers reflected a recovery of the relevant market conditions. Hence, based on the above factors and considering the forthcoming fluctuation of the market conditions coupled with the expected growth of the Group's operations, after taking into account the low utilisation rate of the relevant Existing Caps for 2022, the Board proposed that the New Cap for the year ending 31 December 2024 be adjusted downwards to RMB6,503,000,000 from the Existing Cap of RMB6,900,000,000 for the year ending 31 December 2023. 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 of products and services will grow by approximately 3.4% and 5.6% for each of the years ending 31 December 2025 and 31 December 2026, respectively.

The table below summarises the proposed New Caps for the Continuing Connected Transaction set out in this sub-section 1. for the three years ending 31 December 2026:

	2024	2025	2026
	<i>RMB</i>	<i>RMB</i>	<i>RMB</i>
Proposed New Cap	6,503,000,000	6,725,000,000	7,102,000,000

For our due diligence, we have reviewed the Group's sales plan for 2024-2026 relating to the projection of the number of engines and related products to be sold and discussed with the management on the basis of the estimated transaction amounts. We are of the view that the proposed annual cap for the year ending 31 December 2024 of RMB6,503 million is the result of a combination of factors, comprising of the expected increase in sales incorporating the above year-on-year growth of 50% of the Group's sales to Weichai Holdings and its Associates for the nine-month period ended 30 September 2023, an expected 15% increase in the sales of diesel engines for the year 2024, the expected launch of new hydraulics products in 2024 which will lead to 127% increase in its sales, and the expected improvement in the sales of construction equipment by 30% in 2024. Based on our discussion with the management on the basis of the estimated transaction amounts and also our work done on the samples as set out above, and having considered the basis of determination of the New Caps as set out above, which has taken into account the historical transaction amounts and the reasonable estimates regarding the future market conditions and business plans based on information currently available to the Board as detailed above, we consider such basis of the proposed New Caps is fair and reasonable and in the interests of the Company and the Independent Shareholders as a whole.

As the highest percentage ratio calculated in accordance with the Listing Rules for this Continuing Connected Transaction for the three years ending 31 December 2026 (when aggregated with the proposed New Caps for the same period under sub-sections 2.(a), 2.(b), 2.(c) and 3.(a) herein) exceeds the 5% Threshold, this Continuing Connected Transaction 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 2026 (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, the New Weichai Sale and Processing Services Agreement is conditional upon the relevant resolution being passed at the EGM.

2. *Continuing Connected Transactions between Yangzhou Yaxing (and its subsidiaries) and the Group*

Yangzhou Yaxing and its subsidiaries are principally engaged in the development, manufacture and sale of passenger vehicles. Yangzhou Yaxing is indirectly held as to 62.31% by Weichai Holdings, a substantial shareholder of the Company and hence it is also ultimately governed and controlled by the Shandong Provincial People's Government. Accordingly, Yangzhou Yaxing and its subsidiaries are associates of Weichai Holdings and connected persons of the Company.

(a) *Sale of engines, new energy powertrain and related products by the Company and its subsidiaries to Yangzhou Yaxing and its subsidiaries*

Agreement:	New Weichai Yangzhou Supply Framework Agreement
Date:	30 August 2023
Parties:	1. The Company 2. Yangzhou Yaxing
Term:	1 January 2024 to 31 December 2026
Other terms and details:	The terms of the New Weichai Yangzhou Supply Framework Agreement are substantially the same as those of the Existing Weichai Yangzhou Supply Framework Agreements.

Pursuant to the New Weichai Yangzhou Supply Framework Agreement, the Company and its subsidiaries shall sell engines, new energy powertrain and related

products to Yangzhou Yaxing and its subsidiaries at market prices and/or prices agreed according to the principle of fairness and reasonableness, for a term of three years ending 31 December 2026. Depending on the terms of the definitive agreements to be entered into by the parties, the relevant price for the relevant products shall, as the case maybe, be settled on a monthly or quarterly basis. Upon the expiry of the term of the agreement, the parties may renew the term for a period of three years on a mutually agreed basis.

Price determination and internal control procedures

According to the Letter from the Board, the price of the said products shall be determined according to the following mechanism: the sales department of the Group normally conducts market research and analysis regarding specific products on at least an annual basis, 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, submits a price suggestion after its analysis to the Group's price management department and the final prices are determined at arm's length negotiation among the parties. The price management department of the Group regularly reviews the reasonableness of prices and makes amendments when necessary.

We have reviewed the market research conducted by the Company on the comparison of pricing by product and by business segment with other major players in the same industry and also the monthly report on the impact of recent economic data and government policies on the industry outlook prepared by the Company, which demonstrated how the Company ascertained the market price and material terms during the price determination process. Also, we have reviewed the monthly monitoring report on the accumulated annual transaction amount of the Continuing Connected Transactions prepared by the Group's finance department, which compared such accumulated annual transaction amount of each Continuing Connected Transaction against the respective pre-approved cap. We note that if any accumulated annual transaction amount of any such Continuing Connected Transaction exceeds 70% of the pre-approved annual cap, the relevant Continuing Connected Transaction shall be reported to the Company's board office for monitoring, follow-up and, if necessary, revision of the annual cap in accordance with the requirements of the Listing Rules. On the basis of the above, we are of the view that (i) the Group's internal control measures in place as stated above are effective; and (ii) such internal control measures have ensured the terms of the Continuing Connected Transactions will be no less favourable than those entered into between the Group and the independent third parties.

In addition, we have reviewed two samples of transactions selected from the transactions conducted with the Company's related party, of which the selection criteria is being selected by the Company on a random basis, to confirm that the relevant transaction prices were at or better than normal commercial terms offered to independent third parties. As the selection criteria has adequately covered the transactions relating to the sale of engines, new energy powertrain and related

products by the Company and its subsidiaries to Yangzhou Yaxing and its subsidiaries, we consider that the selected sample size is adequate, sufficient, fair and representative in concluding our view that the above pricing policy was properly followed. In addition, we note that the Company's independent non-executive Directors, the internal audit team and the auditors of the Company review the transactions in relation to the New Framework Agreements on an annual basis. Accordingly, we are of the view that the terms of the transactions between the Company and its related parties are fair and reasonable so far as the Company and the Independent Shareholders are concerned and the Company's internal control measures are able to ensure that the Continuing Connected Transactions are made on terms no less favourable to the Group as compared to those available to independent third parties.

The Directors are of the view that the abovementioned methods and procedures under the pricing policies, which are consistent with those applied to independent third party customers, 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 and we concur that such methods and procedures will ensure that the Company will obtain terms, including market price, which are on normal commercial terms or better.

The table below summarises the Existing Caps for the three years ending 31 December 2023 for the Continuing Connected Transaction set out in this sub-section 2.(a):

	2021	2022	2023
	<i>RMB</i>	<i>RMB</i>	<i>RMB</i>
Existing Cap	660,000,000	675,000,000	690,000,000

The table below summarises the actual transaction amounts for the two years ended 31 December 2022 (audited) and the nine months ended 30 September 2023 (unaudited) for the Continuing Connected Transaction set out in this sub-section 2.(a) and the relevant utilisation rates of each of the relevant Existing Caps:

	For the year ended 31 December 2021 RMB (audited)	For the year ended 31 December 2022 RMB (audited)	For the nine months ended 30 September 2023 RMB (unaudited)
Actual transaction amount	4,740,694	19,783,354	52,622,983
Utilisation Rate (%)	0.72	2.93	10.17*

* Calculated after adjustment of the Existing Cap for nine months on a pro-rata basis.

Yangzhou Yaxing and its subsidiaries purchase the said engines, new energy powertrain and related products from the Group as components for the production of passenger vehicles. During 2021, 2022 and the nine months ended 30 September 2023, with the development of the high-speed railway system, the demands for passenger vehicles had dropped, and, further, with the introduction and development of new energy vehicles, demands for passenger vehicles that uses conventional fuel have gradually been replaced by new energy vehicles. Such transformation of the passenger vehicles market, coupled with the impact of the pandemic control policies that resulted in a slow recovery of the economy during the period, resulted in a lower than expected sale of engines, new energy powertrain and related products by the Group to Yangzhou Yaxing and its subsidiaries.

As shown above, the utilisation rates of the actual transaction amount compared to the Existing Caps for the two financial years ended 31 December 2022 were relatively low at approximately 0.72% and 2.93% respectively and the utilisation rate for the nine months ended 30 September 2023 was also low at approximately 10.17% (after adjustment of the Existing Cap for a nine-month period on a pro-rata basis). Having considered the utilisation rates of the Existing Caps for the two years ended 31 December 2022 and the nine months ended 30 September 2023, the Company has substantially reduced the Existing Cap of RMB690 million for the year ending 31 December 2023 to the New Cap of RMB83 million for the year ending 31 December 2024. We consider that this downward adjustment is fair and reasonable given the low historical utilisation rates as shown above.

The Company estimates that the transaction amount for this Continuing Connected Transaction as set out in this sub-section 2.(a) for the three years ending 31 December 2026 will not exceed RMB83,000,000, RMB117,000,000 and RMB145,000,000, respectively, and such amounts have accordingly been set as the New Caps for this Continuing Connected Transaction.

We have discussed with the Company and understand that in 2021 and 2022, affected by the transformation of the passenger vehicles market, the level of sales made by the Group to Yangzhou Yaxing and its subsidiaries had been lower than expected. However, for the nine months ended 30 September 2023, the passenger vehicle market has rebound and the actual transaction amount has shown improvement.

In light of the abovementioned transformation of the passenger vehicles market, Yangzhou Yaxing and its subsidiaries have, in addition to the production of diesel passenger vehicles, formulated a business plan to produce new energy passenger vehicles, which therefore requires the supply of new battery, motor and electric control system. Based on the Company's research of the market conditions, it is expected that Yangzhou Yaxing and its subsidiaries will maintain its market share of diesel passenger vehicles, whilst at the same time grasp the opportunity to expand its market share for new energy passenger vehicle, accordingly (i) with the demands for conventional diesel passenger vehicles of certain export markets (such as the Middle-East, other area of Asia Pacific and Africa) remaining high, it is expected that the sales of such conventional engines by SFGC to Yangzhou Yaxing and its subsidiaries will grow year-on-year by approximately 5% for each of the three years ending 31 December 2026, and (ii) with the promulgation of environmental policies and a clear trend of the gradual replacement of traditional vehicles with new energy vehicles, the Group estimates that the sales of the relevant new battery, motor and electric control system will show a more substantive growth, amounting to RMB50 million, RMB80 million and RMB100 million, respectively for each of the three years ending 31 December 2026.

Accordingly, taking into account (i) the expected increase in the demand for the said products by Yangzhou Yaxing and its subsidiaries from the Group, on the basis of an expected increase in the production volume of passenger vehicles adopting the new battery, motor and electric control system by Yangzhou Yaxing, and (ii) the sales plan of the Group for the coming three years having taken into consideration of the expected market conditions, the Company expects that the transaction amount for this Continuing Connected Transaction would continue to increase steadily for the three years ending 31 December 2026.

Basis of computation of New Caps

The New Caps for this Continuing Connected Transaction have been prepared by the Company based on the relevant historical transaction amount and the abovementioned expectations. Taking into account all the aforesaid factors and the utilisation rates of the relevant Existing Caps, the Board proposed that the New Cap for the year ending 31 December 2024 be adjusted downwards to RMB83,000,000 from the Existing Cap of RMB690,000,000 for the year ending 31 December 2023, and further, 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 engines, new energy powertrain and related products by the Group to Yangzhou Yaxing and its subsidiaries on an annual basis will increase by approximately 41.0% and 23.9% for each of the two years ending 31 December 2026, respectively.

The table below summarises the New Caps for the Continuing Connected Transaction as set out in this sub-section 2.(a) for the three years ending 31 December 2026:

	2024	2025	2026
	<i>RMB</i>	<i>RMB</i>	<i>RMB</i>
Proposed New Cap	83,000,000	117,000,000	145,000,000

Based on our discussion with the management on the basis of the estimated transaction amounts and also our work done on the samples as set out above, and having considered the basis of determination of the New Caps as set out above, which has taken into account the historical transaction amounts and the reasonable estimates regarding the future market conditions and business plans based on information currently available to the Board as detailed above, we consider such basis of the proposed New Caps is fair and reasonable and in the interests of the Company and the Independent Shareholders as a whole.

As the highest percentage ratio calculated in accordance with the Listing Rules for this Continuing Connected Transaction for the three years ending 31 December 2026 (when aggregated with the proposed New Caps for the same period under sub-sections 1., 2.(b), 2.(c) and 3.(a) herein) exceeds the 5% Threshold, this Continuing Connected Transaction 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 2026 (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, the New Weichai Yangzhou Supply Framework Agreement is conditional upon the relevant resolution being passed at the EGM.

(b) *Sale of transmissions and related products by SFGC to Yangzhou Yaxing and its subsidiaries*

Agreement:	New Transmissions Supply Framework Agreement
Date:	30 August 2023
Parties:	1. SFGC 2. Yangzhou Yaxing
Term:	1 January 2024 to 31 December 2026

Other terms and details:	The terms of the New Transmissions Supply Framework Agreement are substantially the same as those of the Existing Transmissions Supply Framework Agreement.
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Pursuant to the New Transmissions Supply Framework Agreement, SFGC has agreed to sell transmissions and related products to Yangzhou Yaxing and its subsidiaries at market prices and/or prices agreed according to the principle of fairness and reasonableness for a term of three years ending 31 December 2026. Depending on the terms of the definitive agreements to be entered into by the parties, the relevant price for the relevant products shall, as the case maybe, be settled on a monthly or quarterly basis. Upon the expiry of the term of the agreement, the parties may renew the term for a period of three years on a mutually agreed basis.

Price determination and internal control procedures

According to the Letter from the Board, the price of the said products shall be determined according to the following mechanism: the sales department of the Group normally conducts market research and analysis regarding specific products on at least an annual basis, 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, submits a price suggestion after its analysis to the Group's price management department and the final prices are determined at arm's length negotiation among the parties. The price management department of the Group regularly reviews the reasonableness of prices and makes amendments when necessary.

We have reviewed the market research conducted by the Company on the comparison of pricing by product and by business segment with other major players in the same industry and also the monthly report on the impact of recent economic data and government policies on the industry outlook prepared by the Company, which demonstrated how the Company ascertained the market price and the material terms during the price determination process. Also, we have reviewed the monthly monitoring report on the accumulated annual transaction amount of the Continuing Connected Transactions prepared by the Group's finance department, which compared such accumulated annual transaction amount of each Continuing Connected Transaction against the respective pre-approved cap. We note that if any accumulated annual transaction amount of any such Continuing Connected Transaction exceeds 70% of the pre-approved annual cap, the relevant Continuing Connected Transaction shall be reported to the Company's board office for monitoring, follow-up and, if necessary, revision of the annual cap in accordance with the requirements of the Listing Rules. On the basis of the above, we are of the view that (i) the Group's internal control measures in place as stated above are effective; and (ii) such internal control measures have ensured the terms of the Continuing Connected Transactions will be no less favourable than those entered into between the Group and the independent third parties.

In addition, we have reviewed two samples of transactions selected from the transactions conducted with the Company's related party, of which the selection criteria is being selected by the Company on a random basis, to confirm that the relevant transaction prices were at or better than normal commercial terms offered to independent third parties. As the selection criteria has adequately covered the transactions relating to the sale of transmissions and related products by SFGC to Yangzhou Yaxing and its subsidiaries, we consider that the selected sample size is adequate, sufficient, fair and representative in concluding our view that the above pricing policy was properly followed. In addition, we note that the Company's independent non-executive Directors, the internal audit team and the auditors of the Company review the transactions in relation to the New Framework Agreements on an annual basis. Accordingly, we are of the view that the terms of the transactions between the Company and its related parties are fair and reasonable so far as the Company and the Independent Shareholders are concerned and the Company's internal control measures are able to ensure that the Continuing Connected Transactions are made on terms no less favourable to the Group as compared to those available to independent third parties.

The Directors are of the view that the abovementioned methods and procedures under the pricing policies, which are consistent with those applied to independent third party customers, 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 and we concur that such methods and procedures will ensure that the Company will obtain terms, including market price, which are on normal commercial terms or better.

The table below summarises the Existing Caps for the three years ending 31 December 2023 for the Continuing Connected Transaction set out in this sub-section 2.(b):

	2021	2022	2023
	<i>RMB</i>	<i>RMB</i>	<i>RMB</i>
Existing Cap	50,000,000	60,000,000	72,000,000

The table below summarises the actual transaction amounts for the two years ended 31 December 2022 (audited) and the nine months ended 30 September 2023 (unaudited) for this Continuing Connected Transaction set out in this sub-section 2.(b) and the relevant utilisation rates of each of the relevant Existing Caps:

	For the year ended 31 December 2021 RMB (audited)	For the year ended 31 December 2022 RMB (audited)	For the nine months ended 30 September 2023 RMB (unaudited)
Actual transaction amount	1,516,814	1,287,275	5,088,948
Utilisation Rate (%)	3.03	2.15	9.42*

* Calculated after adjustment of the Existing Cap for nine months on a pro-rata basis.

Yangzhou Yaxing and its subsidiaries purchase the said transmissions and related products from SFGC, which comprise mainly transmission for use in new energy vehicles, as one of the components for the production of passenger vehicles. During 2021 and 2022, impacted by the pandemic control policies, the recovery of the economy has been slower than expected, resulted in a lower than expected sale of transmissions and related products by SFGC to Yangzhou Yaxing and its subsidiaries. Thereafter, for the nine months ended 30 September 2023, as the economy and society fully resumed normal operations and the effect of macro-policies unleashed significantly, the national economy began to rebound, accordingly, the sales of transmissions and related products by SFGC to Yangzhou Yaxing and its subsidiaries had also improved significantly for the nine months ended 30 September 2023. The actual transaction amount for the nine months ended 30 September 2023 amounted to approximately 395% of the historical transaction amount for the year ended 31 December 2022, and the annualised transaction amount for the year 2023 (based on the actual transaction amount for the nine months ended 30 September 2023) amounted to approximately 527% of the historical transaction amount for the year ended 31 December 2022. It is expected that such an increasing trend will continue for the three months ending 31 December 2023.

As shown above, the utilisation rates of the actual transaction amount compared to the Existing Caps for the two financial years ended 31 December 2022 were at approximately 3.03% and 2.15% respectively and the utilisation rate for the nine months ended 30 September 2023 was approximately 9.42% (after adjustment of the Existing Cap for nine-month period on a pro-rata basis). Due to the low utilisation rates of the Existing Caps for the two years ended 31 December 2022 and for the nine months ended 30 September 2023, the overall New Caps for the three years ending 31 December 2026 have been substantially reduced, including the

Existing Cap of RMB72 million for the year ending 31 December 2023 being substantially reduced to the proposed New Cap of RMB8 million for the year ending 31 December 2024. We consider that this downward adjustment is fair and reasonable.

The Company estimates that the transaction amount for this Continuing Connected Transaction as set out in this sub-section 2.(b) for the three years ending 31 December 2026 will not exceed RMB8,000,000, RMB9,000,000 and RMB10,000,000, respectively, and such amounts have accordingly been set as the proposed New Caps for this Continuing Connected Transaction.

Taking into account the low utilisation rate of the relevant Existing Caps, the proposed New Caps of this Continuing Connected Transaction have been adjusted downwards significantly from the Existing Caps, with the proposed New Cap for the year ending 31 December 2024 of RMB8,000,000 representing a decrease of approximately 88.9% of the Existing Cap for the year ending 31 December 2023, and are determined with reference to the actual transaction amounts as benchmarks, in particular the actual transaction amount for the nine months ended 30 September 2023.

We have discussed with the Company and understand that in 2021 and 2022, affected by the substantive drop of the passenger vehicle market, the level of sales made by the Group to Yangzhou Yaxing and its subsidiaries had been lower than expected. However, along with the improvement in the economic environment, the market demands have recovered and will enter into a new round of replacement cycle. Affected by factors including the gradual release of demands in purchasing of new vehicles, it is expected that the passenger vehicles market will rebound. This is demonstrated by the improvement in the actual transaction amount for the nine months ended 30 September 2023. The sales of SFGC for the nine months ended 30 September 2023 demonstrated a growth of 45% as compared with the corresponding period in 2022, and in respect of certain of its customers, the aggregated orders placed for the nine months ended 30 September 2023 exceeds the orders placed in the full year of 2022. Based on such trend of recovery, it is expected that the market conditions will further improve in 2024.

Accordingly, taking into account (i) the expected increase in the sales of passenger vehicles by Yangzhou Yaxing and its subsidiaries according to the sales plan of Yangzhou Yaxing, (ii) the expected increase in the demand for the said transmissions and related products by Yangzhou Yaxing and its subsidiaries, and (iii) the sales plan of the Group for the coming three years having taken into consideration of the expected market conditions, the Company expects that the transaction amount for this Continuing Connected Transaction would increase for the three years ending 31 December 2026. In particular, it is estimated that the transaction amount for the year ending 31 December 2024 will increase by approximately 15% to 20% compared to the estimated actual transaction amounts for the full year 2023.

Basis of computation of New Caps

In light of the above, the New Caps for this Continuing Connected Transaction have been prepared by the Company based on the relevant historical transaction amount and the abovementioned expectations. Taking into account the low utilisation rates of the relevant Existing Caps, the Board proposed that the New Cap for the year ending 31 December 2024 be substantially adjusted downwards to RMB8,000,000 to reflect the latest actual transaction amounts, further, on the basis of all the aforesaid factors, it is estimated that the overall transaction amount of the sale of transmissions by SFGC to Yangzhou Yaxing and its subsidiaries on an annual basis will increase by approximately 12.5% and 11.1% for each of the two years ending 31 December 2026, respectively.

The table below summarises the proposed New Caps for the Continuing Connected Transaction as set out in this sub-section 2.(b) for the three years ending 31 December 2026:

	2024	2025	2026
	<i>RMB</i>	<i>RMB</i>	<i>RMB</i>
Proposed New Cap	8,000,000	9,000,000	10,000,000

Based on our discussion with the management on the basis of the estimated transaction amounts and also our work done on the samples as set out above, and having considered the basis of determination of the New Caps as set out above, which has taken into account the historical transaction amounts and the reasonable estimates regarding the future market conditions and business plans based on information currently available to the Board as detailed above, we consider such basis of the proposed New Caps is fair and reasonable and in the interests of the Company and the Independent Shareholders as a whole.

As the highest percentage ratio calculated in accordance with the Listing Rules for this Continuing Connected Transaction for the three years ending 31 December 2026 (when aggregated with the proposed New Caps for the same period under sub-sections 1., 2.(a), 2.(c) and 3.(a) herein) exceeds the 5% Threshold, this Continuing Connected Transaction 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 2026 (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, the New Transmissions Supply Framework Agreement is conditional upon the relevant resolution being passed at the EGM.

(c) *Sale of axles and related products by Hande Axle to Yangzhou Yaxing and its subsidiaries*

Agreement:	New Axles Supply Framework Agreement
Date:	30 August 2023
Parties:	1. Hande Axle 2. Yangzhou Yaxing
Term:	1 January 2024 to 31 December 2026
Other terms and details:	The terms of the New Axles Supply Framework Agreement are substantially the same as those of the Existing Axles Supply Framework Agreement.

Pursuant to the New Axles Supply Framework Agreement, Hande Axle agreed to sell axles and related products to Yangzhou Yaxing and its subsidiaries at market prices and/or prices agreed according to the principle of fairness and reasonableness for a term of three years ending 31 December 2026. Depending on the terms of the definitive agreements to be entered into by the parties, the relevant price for the relevant products shall, as the case maybe, be settled on a monthly or quarterly basis. Upon the expiry of the term of the agreement, the parties may renew the term for a period of three years on a mutually agreed basis.

Price determination and internal control procedures

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

We have reviewed the market research conducted by the Company on the comparison of pricing by product and by business segment with other major players in the same industry and also the monthly report on the impact of recent economic data and government policies on the industry outlook prepared by the Company, which demonstrated how the Company ascertained the market price and material terms during the price determination process. Also, we have reviewed the monthly monitoring report on the accumulated annual transaction amount of the Continuing

Connected Transactions prepared by the Group's finance department, which compared such accumulated annual transaction amount of each Continuing Connected Transaction against the respective pre-approved cap. We note that if any accumulated annual transaction amount of any such Continuing Connected Transaction exceeds 70% of the pre-approved annual cap, the relevant Continuing Connected Transaction shall be reported to the Company's board office for monitoring, follow-up and, if necessary, revision of the annual cap in accordance with the requirements of the Listing Rules. On the basis of the above, we are of the view that (i) the Group's internal control measures in place as stated above are effective; and (ii) such internal control measures have ensured the terms of the Continuing Connected Transactions will be no less favourable than those entered into between the Group and the independent third parties.

In addition, we have reviewed two samples of transactions selected from the transactions conducted with the Company's related party, of which the selection criteria is being selected by the Company on a random basis, to confirm that the relevant transaction prices were at or better than normal commercial terms offered to independent third parties. As the selection criteria has adequately covered the transactions relating to the sale of axles and related products by Hande Axle to Yangzhou Yaxing and its subsidiaries, we consider that the selected sample size is adequate, sufficient, fair and representative in concluding our view that the above pricing policy was properly followed. In addition, we note that the Company's independent non-executive Directors, the internal audit team and the auditors of the Company review the transactions in relation to the New Framework Agreements on an annual basis. Accordingly, we are of the view that the terms of the transactions between the Company and its related parties are fair and reasonable so far as the Company and the Independent Shareholders are concerned and the Company's internal control measures are able to ensure that the Continuing Connected Transactions are made on terms no less favourable to the Group as compared to those available to independent third parties.

The Directors are of the view that the abovementioned methods and procedures under the pricing policies, which are consistent with those applied to independent third party customers, 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 and we concur that such methods and procedures will ensure that the Company will obtain terms, including market price, which are on normal commercial terms or better.

The table below summarises the Existing Caps for the three years ending 31 December 2023 for the Continuing Connected Transaction set out in this sub-section 2.(c):

	2021	2022	2023
	<i>RMB</i>	<i>RMB</i>	<i>RMB</i>
Existing Cap	77,000,000	90,000,000	101,000,000

The table below summarises the actual transaction amounts for the two years ended 31 December 2022 (audited) and the nine months ended 30 September 2023 (unaudited) for the Continuing Connected Transaction set out in this sub-section 2.(c) and the relevant utilisation rates of each of the relevant Existing Caps:

	For the year ended 31 December 2021 RMB (audited)	For the year ended 31 December 2022 RMB (audited)	For the nine months ended 30 September 2023 RMB (unaudited)
Actual transaction amount	14,213,499	21,124,342	7,184,183
Utilisation Rate (%)	18.46	23.47	9.48*

* Calculated after adjustment of the Existing Cap for nine months on a pro-rata basis.

Yangzhou Yaxing and its subsidiaries purchase the said axles and related products from Hande Axle, which comprise mainly axles for use in conventional fuel vehicles, as components for the production of passenger vehicles. In recent years, Hande Axle mainly supplies its products to heavy-duty trucks market, passenger vehicle market and the off-highway market, and Yangzhou Yaxing and its subsidiaries are key clients of Hande Axle in respect of its development of the passenger vehicle market. During 2021 and 2022, impacted by the pandemic control policies, the recovery of the economy has been slower than expected and the export sales remain under pressure, resulted in a lower than expected sale of axles and related products by Hande Axle to Yangzhou Yaxing and its subsidiaries. In the second half of 2022, impacted by the governmental policies on the grant of governmental subsidies for passenger vehicles, there has been a temporary surge in the demands in passenger vehicles, resulting in an increase in the sales and accordingly the actual transaction amount for the year ended 31 December 2022. With the market conditions in 2023 have generally recovered, it is expected that the market conditions will further improve in 2024.

As shown above, the utilisation rates of the actual transaction amount compared to the Existing Caps for the two financial years ended 31 December 2022 were at approximately 18.46% and 23.47% respectively and the utilisation rate for the nine months ended 30 September 2023 was approximately 9.48% (after adjustment of the Existing Cap for nine-month period on a pro-rata basis).

The Company estimates that the transaction amount for this Continuing Connected Transaction as set out in this sub-section 2.(c) for the three years ending 31 December 2026 will not exceed RMB23,000,000, RMB26,000,000 and RMB29,000,000, respectively, and such amounts have accordingly been set as the proposed New Caps for this Continuing Connected Transaction. We consider that

the reduction in proposed New Caps is fair and reasonable given the relatively low utilisation rates as illustrated above.

Taking into account the low utilisation rate of the relevant Existing Caps, the proposed New Caps of this Continuing Connected Transaction have been adjusted downwards significantly from the Existing Caps, with the proposed New Cap for the year ending 31 December 2024 of RMB23,000,000 representing a decrease of approximately 77.2% of the Existing Cap for the year ending 31 December 2023, which is determined with reference to the actual transaction amounts as benchmarks taking into account the expectation that the market conditions will further improve for the three years ending 31 December 2026 and the possibility of policy-driven temporary surges in market demands, and with the proposed New Cap for the year ending 31 December 2024 being comparable to the historical transaction amount for the year ended 31 December 2022.

Based on the Company's research of the market conditions and the expected sales plan of the Group, in light of the abovementioned expected improving trend of market conditions, for the three years ending 31 December 2026, the Group estimates that Hande Axle will sell 2,000, 2,250 and 2,500 units of axles to Yangzhou Yaxing and its subsidiaries, respectively, which is comparable to the total number of axles sold in the year 2022 of approximately 2,500 units. Taking into account (i) the expected increase in the sales of passenger vehicles by Yangzhou Yaxing and its subsidiaries according to the sales plan of Yangzhou Yaxing, (ii) expected increase in the demand for axles and related products by Yangzhou Yaxing and its subsidiaries, and (iii) the sales plan of the Group for the coming three years having taken into consideration of the expected market conditions, the Company expects that the transaction amount for this Continuing Connected Transaction would increase for the three years ending 31 December 2026.

Basis of computation of New Caps

The New Caps for this Continuing Connected Transaction have been prepared by the Company based on the relevant historical transaction amount and the abovementioned expectations. Taking into account the low utilisation rates of the relevant Existing Caps, the Board proposed that the New Cap for the year ending 31 December 2024 be adjusted downwards to RMB23,000,000 to reflect the latest actual transaction amounts, further, on the basis of all the aforesaid factors, it is estimated that the overall transaction amount of the sale of axles and related products by Hande Axle to Yangzhou Yaxing and its subsidiaries on an annual basis will increase by approximately 13.0% and 11.5% for each of the two years ending 31 December 2026, respectively.

The table below summarises the proposed New Caps for the Continuing Connected Transaction as set out in this sub-section 2.(c) for the three years ending 31 December 2026:

	2024	2025	2026
	<i>RMB</i>	<i>RMB</i>	<i>RMB</i>
Proposed New Cap	23,000,000	26,000,000	29,000,000

Based on our discussion with the management on the basis of the estimated transaction amounts and also our work done on the samples as set out above, and having considered the basis of determination of the New Caps as set out above, which has taken into account the historical transaction amounts and the reasonable estimates regarding the future market conditions and business plans based on information currently available to the Board as detailed above, we consider such basis of the proposed New Caps is fair and reasonable and in the interests of the Company and the Independent Shareholders as a whole.

As the highest percentage ratio calculated in accordance with the Listing Rules for this Continuing Connected Transaction for the three years ending 31 December 2026 (when aggregated with the proposed New Caps for the same period under sub-sections 1., 2.(a), 2.(b) and 3.(a) herein) exceeds the 5% Threshold, this Continuing Connected Transaction 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 (on an aggregated basis) is a Non-exempt Continuing Connected Transaction, the New Axles Supply Framework Agreement and the proposed New Caps are subject to the relevant resolution being passed at the EGM.

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

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 and hence, it is also ultimately governed and controlled by the Shandong Provincial People's Government. Accordingly, Weichai Westport is a connected person of the Company.

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

Agreement:	New Weichai Westport Supply Agreement
Date:	30 August 2023
Parties:	1. The Company 2. Weichai Westport
Term:	1 January 2024 to 31 December 2026
Other terms and details:	The terms of the New Weichai Westport Supply Agreement are substantially the same as those of the Existing Weichai Westport Supply Agreement.

Pursuant to the New Weichai Westport Supply Agreement, each of the Company and its subsidiaries and/or associates shall supply certain base engines, gas engine parts, utility and labour services, technology development services and related products and services to Weichai Westport, at market prices and/ or prices agreed according to the principle of fairness and reasonableness for a term of three years ending 31 December 2026. Base engines are basic form engines composed of parts that are applicable in a variety of types of engines, and may be modified or assembled into different types of engines by further processing. The Company and its subsidiaries and/or associates supply base engines to Weichai Westport, and Weichai Westport will process the base engines into gas engines (being engines using gas as fuel) and sell to its customers. Weichai Westport will also sell some of its gas engines back to the Company and its subsidiaries and/or associates, for the Company and its subsidiaries and/or associates to equip their vehicle products with gas engines or sell further to their customers such as gas-fuelled truck manufacturers. The purchase of gas engines and related products and services by the Company and its subsidiaries and/or associates from Weichai Westport also constitutes continuing connected transactions under the Listing Rules of the Group, and further details are provided under the section headed “3.(b) Purchase of gas engines, gas engine parts, labour services and related products and services by the Company (and its subsidiaries and/or associates) from Weichai Westport” of the Circular.

Depending on the terms of the definitive agreements to be entered into by the parties, the relevant price for the relevant 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. Upon the expiry of the term of the agreement, the parties may extend the term for three years on a mutually agreed basis.

Price determination and internal control procedures

According to the Letter from the Board, the sale price of the said products and services is determined according to the following mechanism: the sales department of the Group normally conducts market research and analysis regarding specific products on at least an annual basis, 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, submits a price suggestion after its analysis to the Group's price management department and the final prices are determined at arm's length negotiation among the parties. The price management department of the Group regularly reviews the reasonableness of prices and makes amendments when necessary.

We have reviewed the market research conducted by the Company on the comparison of pricing by product and by business segment with other major players in the same industry and also the monthly report on the impact of recent economic data and government policies on the industry outlook prepared by the Company, which demonstrated how the Company ascertained the market price and material terms during the price determination process. Also, we have reviewed the monthly monitoring report on the accumulated annual transaction amount of the Continuing Connected Transactions prepared by the Group's finance department, which compared such accumulated annual transaction amount of each Continuing Connected Transaction against the respective pre-approved cap. We note that if any accumulated annual transaction amount of any such Continuing Connected Transaction exceeds 70% of the pre-approved annual cap, the relevant Continuing Connected Transaction shall be reported to the Company's board office for monitoring, follow-up and, if necessary, revision of the annual cap in accordance with the requirements of the Listing Rules. On the basis of the above, we are of the view that (i) the Group's internal control measures in place as stated above are effective; and (ii) such internal control measures have ensured the terms of the Continuing Connected Transactions will be no less favourable than those entered into between the Group and the independent third parties.

In addition, we have reviewed two samples of transactions selected from the transactions conducted with the Company's related party, of which the selection criteria is being selected by the Company on a random basis, to confirm that the relevant transaction prices were at or better than normal commercial terms offered to independent third parties. As the selection criteria has adequately covered the transactions relating to the 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, we consider that the selected sample size is adequate, sufficient, fair and representative in concluding our view that the above pricing policy was properly followed. In addition, we note that the Company's independent non-executive Directors, the internal audit team and the auditors of the Company review the transactions in relation to the New Framework Agreements on an annual basis. Accordingly, we are of the view that the terms of the transactions between the Company and its related

parties are fair and reasonable so far as the Company and the Independent Shareholders are concerned and the Company's internal control measures are able to ensure that the Continuing Connected Transactions are made on terms no less favourable to the Group as compared to those available to independent third parties.

The Directors are of the view that the abovementioned methods and procedures under the pricing policies, which are consistent with those applied to independent third party customers, 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 and we concur that such methods and procedures will ensure that the Company will obtain terms, including market price, which are on normal commercial terms or better.

The table below summarises the Existing Caps for the Continuing Connected Transaction set out in this sub-section 3.(a) for the three years ending 31 December 2023:

	2021	2022	2023
	<i>RMB</i>	<i>RMB</i>	<i>RMB</i>
Existing Cap	580,000,000	630,000,000	680,000,000

The table below summarises the actual transaction amounts for each of the two years ended 31 December 2022 (audited) and the nine months ended 30 September 2023 (unaudited) for the Continuing Connected Transaction set out in this sub-section 3.(a) and the relevant utilisation rates of each of the relevant Existing Caps:

	For the year	For the year	For the nine
	ended	ended	months
	31 December	31 December	30 September
	2021	2022	2023
	<i>RMB</i>	<i>RMB</i>	<i>RMB</i>
	<i>(audited)</i>	<i>(audited)</i>	<i>(unaudited)</i>
Actual transaction amount	293,254,311	340,999,228	296,673,212
Utilisation Rate (%)	50.56	54.13	58.17*

* Calculated after adjustment of the Existing Cap for nine months on a pro-rata basis.

In 2021 and 2022, impacted by sluggish economic market conditions and the over satisfaction of demands in earlier years, the demand of purchasing new vehicles for replacement had been weak. Nonetheless, with lower domestic price of natural gas fuels compared with that of petrol or diesel, there has been a strong

demand for natural gas-fueled trucks in the ultimate market users, and accordingly, there has been a need to stock up inventory for the relevant gas machines and related products, resulting in the Group having been able to maintain stable sales during the period. For illustrative purposes, in August 2023, the sale of natural gas-fueled trucks amounted to 18,900 units which represented a year-on-year increase of around 562%. Such demand in gas-fueled trucks, coupled with the fact that the Group started development of its gas engine products early on and gained a competitive edge over its products, resulted in the Group improving its market share in the gas engine market in recent years.

As shown above, the utilisation rates of the actual transaction amounts compared to the Existing Caps for the two financial years ended 31 December 2022 were over half at approximately 50.56% and 54.13% respectively and the utilisation rate for the nine months ended 30 September 2023 was over half at approximately 58.17% (after adjustment of the Existing Cap for nine-month period on a pro-rata basis).

The actual transaction amount of this Continuing Connected Transaction for the nine months ended 30 September 2023 is approximately RMB296,673,212, and that for the six months ended 30 June 2023 is approximately RMB169,479,501. The average monthly transaction amount for the three months of July to September 2023 represents an increase of approximately 50.1% compared to the average monthly transaction amount for the six months of January to June 2023. It is expected that the growing trend in the three months of July to September 2023 will continue for the three months of October to December 2023, and further taking into account the technology services fees which will only be settled in the fourth quarter of 2023, it is expected that the utilisation rate of the Existing Cap for the year ending 31 December 2023 will be higher than that for the years 2021 and 2022.

The Company estimates that the transaction amount of this Continuing Connected Transaction for the three years ending 31 December 2026 shall not exceed RMB896,000,000, RMB906,000,000 and RMB935,000,000 respectively, and the same have been accordingly set as the proposed New Caps for this Continuing Connected Transaction.

Based on the Company's research of the market conditions and the expected sales plan of the Group, for the three years ending 31 December 2026, the Group estimates that (i) the sales of base engines by the Group to Weichai Westport will amount to approximately RMB200 million in 2024 with an annual growth rate of 5% to 10% in respect of each of the years thereafter, (ii) the sales of the gas engine parts by the Group to Weichai Westport will amount to approximately RMB100 million per annum. Further, in light of the Group's more stringent requirements in respect of product quality and adjustments on the Group's maintenance services policy, it is expected that the relevant maintenance services fees and technology development service fees to be provided by the Group to Weichai Westport for the three years ending 31 December 2026 will increase to approximately RMB330 million and approximately RMB270 million per annum, respectively.

Basis of computation of New Caps

The proposed New Caps have been prepared by the Company primarily based on (i) the historical transaction amounts, in particular, that, as disclosed above given the strong demand for natural gas-fuelled trucks in the ultimate market users driven by the lower domestic price of lower natural gas fuels compared with that of petrol or diesel, the sales of gas engines by the Group in the first half of 2023 having increased substantially by approximately five times when compared with that of the corresponding period, and the related maintenance services provided by the Group to Weichai Westport in 2024 are therefore expected to increase substantially, (ii) the expectation that the actual transaction amount for the second half of 2023 will show further improvement given that the settlement in respect of the Group's technology development services are expected to take place in the second half of 2023, (iii) 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, and (iv) the average unit prices of such base engines, gas engine parts and related products. 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 mildly by approximately 1.1% and 3.2% for each of the two years ending 31 December 2026, respectively.

The table below summarises the proposed New Caps for the Continuing Connected Transaction as set out in this sub-section 3.(a) for the three years ending 31 December 2026:

	2024	2025	2026
	<i>RMB</i>	<i>RMB</i>	<i>RMB</i>
Proposed New Cap	896,000,000	906,000,000	935,000,000

Based on our discussion with the management on the basis of the estimated transaction amounts and also our work done on the samples as set out above, and having considered the basis of determination of the New Caps as set out above, which has taken into account the historical transaction amounts and the reasonable estimates regarding the future market conditions and business plans based on information currently available to the Board as detailed above, we consider such basis of the proposed New Caps is fair and reasonable and in the interests of the Company and the Independent Shareholders as a whole.

As the highest percentage ratio calculated in accordance with the Listing Rules for this Continuing Connected Transaction for the three years ending 31 December 2026 (when aggregated with the proposed New Caps for the same period under sub-sections 1., 2.(a), 2.(b) and 2.(c) herein) exceeds the 5% Threshold, the Continuing Connected Transaction 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 2026 (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, the New Weichai Westport Supply Agreement is conditional upon the relevant resolution being passed at the EGM.

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

Agreement:	New Weichai Westport Purchase Agreement
Date:	30 August 2023
Parties:	1. The Company 2. Weichai Westport
Term:	1 January 2024 to 31 December 2026
Other terms and details:	The terms of the New Weichai Westport Purchase Agreement are substantially the same as those of the Existing Weichai Westport Purchase Agreement.

Pursuant to the New Weichai Westport Purchase Agreement, the Company and its subsidiaries and/or associates shall purchase certain gas engines, gas engine parts, labour services and related products and services from Weichai Westport, at market prices and/or prices agreed according to the principle of fairness and reasonableness for a term of three years ending 31 December 2026. Gas engines are engines using gas as fuel and are processed from base engines (being basic form engines). Weichai Westport purchases base engines and related products and services from the Company and its subsidiaries and/or associates, and process base engines into gas engines to further sell to its customers. The Company and its subsidiaries and/or associates also purchase gas engines from Weichai Westport to equip their vehicle products with gas engines or further sell to their customers such as gas-fuelled truck manufacturers. The sale of base engines by the Company and its subsidiaries and/or associates to Weichai Westport also constitutes continuing connected transactions under the Listing Rules of the Group, and further details are provided under the section headed "3.(a) Supply of base engines, gas engine parts, utility and labour services, technology development services and related products and services by the Company (and its subsidiaries and/or associates) to Weichai Westport" of the Circular.

Depending on the terms of the definitive agreements to be entered into by the parties, the relevant price for the relevant 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. Upon the expiry of the term of the agreement, the parties may extend the term for three years on a mutually agreed basis.

Price determination and internal control procedures

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

We have reviewed the market research conducted by the Company on the comparison of pricing by product and by business segment with other major players in the same industry and also the monthly report on the impact of recent economic data and government policies on the industry outlook prepared by the Company, which demonstrated how the Company ascertained the market price and material terms during the price determination process. Also, we have reviewed the monthly monitoring report on the accumulated annual transaction amount of the Continuing Connected Transactions prepared by the Group's finance department, which compared such accumulated annual transaction amount of each Continuing Connected Transaction against the respective pre-approved cap. We note that if any accumulated annual transaction amount of any such Continuing Connected Transaction exceeds 70% of the pre-approved annual cap, the relevant Continuing Connected Transaction shall be reported to the Company's board office for monitoring, follow-up and, if necessary, revision of the annual cap in accordance with the requirements of the Listing Rules. On the basis of the above, we are of the view that (i) the Group's internal control measures in place as stated above are effective; and (ii) such internal control measures have ensured the terms of the Continuing Connected Transactions will be no less favourable than those entered into between the Group and the independent third parties.

In addition, we have reviewed two samples of transactions selected from the transactions conducted with the Company's related party, of which the selection criteria is being selected by the Company on a random basis, to confirm that the relevant transaction prices were at or better than normal commercial terms offered to independent third parties. As the selection criteria has adequately covered the transactions relating to the 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, we consider that the selected sample size

is adequate, sufficient, fair and representative in concluding our view that the above pricing policy was properly followed. In addition, we note that the Company's independent non-executive Directors, the internal audit team and the auditors of the Company review the transactions in relation to the New Framework Agreements on an annual basis. Accordingly, we are of the view that the terms of the transactions between the Company and its related parties are fair and reasonable so far as the Company and the Independent Shareholders are concerned and the Company's internal control measures are able to ensure that the Continuing Connected Transactions are made on terms no less favourable to the Group as compared to those available to independent third parties.

The Directors are of the view that the abovementioned methods and procedures under the pricing policies, which are consistent with those applied to independent third party customers, 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 and we concur that such methods and procedures will ensure that the Company will obtain terms, including market price, which are on normal commercial terms or better.

The table below summarises the Existing Caps for the three years ending 31 December 2023 for the Continuing Connected Transaction set out in this sub-section 3.(b):

	2021	2022	2023
	<i>RMB</i>	<i>RMB</i>	<i>RMB</i>
Existing Cap	5,270,000,000	6,320,000,000	7,570,000,000

The table below summarises the actual transaction amounts for each of the two years ended 31 December 2022 (audited) and the nine months ended 30 September 2023 (unaudited) for the Continuing Connected Transaction set out in this sub-section 3.(b) and the relevant utilisation rates of each of the relevant Existing Caps:

	For the year ended 31 December 2021 RMB (audited)	For the year ended 31 December 2022 RMB (audited)	For the nine months ended 30 September 2023 RMB (unaudited)
Actual transaction amount	2,389,305,998	810,590,661	3,393,102,175
Utilisation Rate (%)	45.34	12.83	59.76*

* Calculated after adjustment of the Existing Cap for nine months on a pro-rata basis.

In 2022, impacted by the pandemic control policies, the recovery of the economy has been slower than expected. With the sluggish economic market conditions in 2021 and the over satisfaction of demands in earlier years triggered by the stringent environmental policies implemented in the second half of 2021, which resulted in an exceptional surge of sales in 2021, there existed a large volume of vehicles in operation and the intention of purchasing new vehicles for replacement is generally weak. Such substantive drop in demands for vehicles had, in turn, affected the demand for engines. Nonetheless, with lower domestic price of natural gas fuels compared with that of petrol or diesel, there has been a strong demand for natural gas-fueled trucks in the ultimate market users, and accordingly, there has been a need to stock up inventory for the relevant gas machines and related products, resulting in increase in the purchase of gas engines by the Group in the first half of 2023.

As shown above, the utilisation rates of the actual transaction amounts compared to the Existing Caps for the two financial years ended 31 December 2022 were approximately 45.34% and 12.83% respectively and the utilisation rate for the nine months ended 30 September 2023 was approximately 59.76% (after adjustment of Existing Cap for nine-month period on a pro-rata basis).

The Company estimates that the transaction amount of this Continuing Connected Transaction for the three years ending 31 December 2026 shall not exceed RMB4,644,000,000, RMB4,656,000,000 and RMB4,704,000,000, respectively, and the same have been accordingly set as the proposed New Caps for this Continuing Connected Transaction.

Taking into account the utilisation rate of the relevant Existing Caps, the proposed New Caps of this Continuing Connected Transaction have been adjusted

downwards from the Existing Caps, with the proposed New Cap for the year ending 31 December 2024 of RMB4,644 million representing a decrease of approximately 38.7% of the Existing Cap for the year ending 31 December 2023, and are determined with reference to the actual transaction amounts as benchmarks, in particular the actual transaction amount for the nine months ended 30 September 2023.

Based on the Company's research of the market conditions and the lower domestic price of natural gas fuels compared with that of petrol or diesel, there has been a strong demand for natural gas-fueled trucks. Against such background, it is expected that the Group will continue to leverage on its competitive edge in its development of gas engine products, and result in a growth of 20% in the procurement of gas engines from Weichai Westport in 2024 compared with the estimated purchase amount in 2023 (such an estimation is based on the actual transaction amount of the first half of 2023), with milder growth for the two years ending 31 December 2026.

We have discussed with the Company and understand that in 2021 and 2022, affected by the sluggish performance of the heavy-duty vehicle industry, the amount of procurement made by the Group from Weichai Westport had been lower than expected. However, in the first half of 2023, with the improved economic conditions and having policies in place which resulted in a gradual release of demands, there has been increased factors favourable to the development of the industry, and hence it is expected that the heavy duty vehicle market will rebound. This is demonstrated by the improvement in the actual transaction amount for the nine months ended 30 September 2023. 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 2026, in line with an increase in the volume of these products to be sold by the Group to third party customers after purchasing the relevant services to modify and assemble 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.

Basis of computation of New Caps

The proposed New Caps have been prepared by the Company primarily based on (i) the historical transaction amounts in particular, the actual transaction amount for the nine months ended 30 September 2023, (ii) the estimate of the volume of gas engines being approximately 100,800 units, 101,000 units and 102,000 units to be purchased by the Group from Weichai Westport at an average price of approximately RMB43,000 per unit, and (iii) the total transaction amount for the gas engine parts and related products and services being approximately RMB312 million per annum. Taking into account the relatively low utilisation rate of the relevant Existing Caps, the Board proposed that the New Cap for the year ending 31 December 2024 be significantly adjusted downwards to RMB4,644 million from the

Existing Cap of RMB7,570 million for the year ending 31 December 2023. Further, 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 mildly by approximately 0.3% and 1.0% for each of the two years ending 31 December 2026, respectively.

The table below summarises the proposed New Caps for the Continuing Connected Transaction as set out in this sub-section 3.(b) for the three years ending 31 December 2026:

	2024	2025	2026
	<i>RMB</i>	<i>RMB</i>	<i>RMB</i>
Proposed New Cap	4,644,000,000	4,656,000,000	4,704,000,000

Based on our discussion with the management on the basis of the estimated transaction amounts and also our work done on the samples as set out above, and having considered the basis of determination of the New Caps as set out above, which has taken into account the historical transaction amounts and the reasonable estimates regarding the future market conditions and business plans based on information currently available to the Board as detailed above, we consider such basis of the proposed New Caps is fair and reasonable and in the interests of the Company and the Independent Shareholders as a whole.

As the highest percentage ratio calculated in accordance with the Listing Rules for this Continuing Connected Transaction for the three years ending 31 December 2026 exceeds the 5% Threshold when aggregated with the transactions as disclosed in the announcement of the Company dated 27 January 2022, this Continuing Connected Transaction 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 2026 is a Non-exempt Continuing Connected Transaction and the proposed New Caps are subject to the approval of the Independent Shareholders, the New Weichai Westport Purchase Agreement is conditional upon the relevant resolution being passed at the EGM.

E. Reasons for and benefits of the Continuing Connected Transactions

According to the Letter from the Board, the reasons for the Company to enter into the New Framework Agreements are as follows:

Continuing Connected Transactions between Weichai Holdings (and its associates) and the Group

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 Transactions 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, certain Continuing Connected Transactions have been continuing since the listing of the Company on the Stock Exchange.

According to the Letter from the Board, as the Company has conducted these Continuing Connected Transactions 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 these Continuing Connected Transactions 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 Transactions.

Continuing Connected Transactions between Yangzhou Yaxing (and its subsidiaries) and the Group

As at the date of the Circular, Weichai Holdings is a substantial shareholder and a connected person of the Company. Since Yangzhou Yaxing is a subsidiary of Weichai Holdings, Yangzhou Yaxing and its subsidiaries are associates of Weichai Holdings and connected persons of the Company under Chapter 14A of the Listing Rules. The entering into of the New Framework Agreements between the Group and Yangzhou Yaxing and the transactions contemplated thereunder constitute continuing connected transactions of the Company.

The Group is engaged in, inter alia, the manufacture and sale of diesel engines, transmissions, axles and related products. Yangzhou Yaxing and its subsidiaries are principally engaged in the development, manufacture and sale of passenger vehicles. Yangzhou Yaxing and its subsidiaries purchase engines, new energy powertrain and

related products, transmissions and axles from the Group as components for the production of passenger vehicles. According to the Letter from the Board, the sales of passenger vehicles by Yangzhou Yaxing and its subsidiaries are expected to increase according to its sales plan, and the demand for engines, new energy powertrain and related products, transmissions and axles and the proportion of vehicles of Yangzhou Yaxing utilising the Group's products are also expected to increase. The Directors (including the independent non-executive Directors) consider that such Continuing Connected Transactions will create synergy potential and strategic benefits between Yangzhou Yaxing and the Group, and will also provide a secured source of revenue for the Group.

Continuing Connected Transactions between Weichai Westport and the Group

In respect of the Continuing Connected Transactions between the Group and Weichai Westport, 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 such Continuing Connected Transactions under the relevant New Framework Agreements will also provide a secure source of revenue for the Group, and the Group will also be able to secure a stable and reliable supply of quality gas engines from Weichai Westport instead of sourcing from other market suppliers.

The 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.

Accordingly, based on the above reasons and benefits for the Continuing Connected Transactions, we consider that the New Framework Agreements are on normal commercial terms or better and are fair and reasonable and are in the interests of the Company and the Independent Shareholders as a whole. We also consider the potential for the Company to maximize operating efficiency, obtain a secure source of revenue and potential synergistic benefits to be beneficial to the Company and the Independent Shareholders as a whole.

F. Internal Control Procedures

The internal control procedures for the respective New Framework Agreements have been set out in Section D above.

In addition, to safeguard the interests of the Company and the Shareholders as a whole, the Company has adopted certain internal control measures in respect of the Continuing Connected Transactions as elaborated below:

- The Company's board office shall carry out regular meetings on the management and control of connected transactions to monitor and ensure that all the relevant Continuing Connected Transactions are in compliance with the relevant rules and regulations and the terms of the relevant New Framework Agreements.
- The Group has designated a team within its finance department to, on a monthly basis, collect data on the accumulated annual transaction amount of each Continuing Connected Transaction and compare such accumulated annual transaction amount of each Continuing Connected Transaction against the respective pre-approved cap, and such designated team directly reports to the financial controller of the Group with respect to the Continuing Connected Transactions. If any accumulated annual transaction amount of any such Continuing Connected Transaction exceeds 70% of the pre-approved annual cap, the relevant Continuing Connected Transaction shall be reported to the Company's board office for monitoring, follow-up and, if necessary, revision of the annual cap in accordance with the requirements of the Listing Rules.
- The independent non-executive Directors, the internal audit team and the auditors of the Company shall review the transactions in relation to the New Framework Agreements on an annual basis and confirm in the annual reports the matters set out in Rules 14A.55 and 14A.56 of the Listing Rules, respectively.

We have reviewed the monthly monitoring report on the accumulated annual transaction amount of the Continuing Connected Transactions prepared by the Group's finance department as stated above and have discussed with the management on the implementation of the above internal control measures. We consider that such methods and procedures adopted by the Company, including and not limited to the collection of market information, conducting price consultations and inspection in the PRC market, negotiations taking into account of the market price and relevant product cost and regular review by the relevant department, will enable the Company to ensure that the terms and conditions of the Non-exempt Continuing Connected Transactions are conducted on normal commercial terms or better in accordance with the New Framework Agreements, and that the New Caps will not be exceeded.

RECOMMENDATION

Having considered the principal factors and reasons referred to above, we are of the opinion that the terms of the Non-exempt Continuing Connected Transactions and the relevant New Caps are on normal commercial terms or better and in the ordinary and usual course of business of the Company and are fair and reasonable so far as the Independent Shareholders are concerned 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 ordinary resolution to approve the terms of the Non-exempt Continuing Connected Transactions and the relevant New Caps at the EGM.

Yours faithfully,
For and on behalf of
Trinity Corporate Finance Limited



Joanne Pong
Responsible Officer