TRINITY

Trinity Corporate Finance Limited

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Hong Kong.

31 October 2024

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 Revised Caps and 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 31 October 2024 (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 22 August 2024, the Group entered into (i) the Supplemental Agreements; and (ii) 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 sections III and IV 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 or Supplemental Agreement and proposed New Caps or Revised 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.

Since the Continuing Connected Transactions (on an aggregated basis) are Non-exempt Continuing Connected Transactions and the proposed Revised Caps and New Caps (as applicable) are subject to the approval of the Independent Shareholders, the Supplemental Agreements and the New Framework Agreements are conditional upon the relevant resolution(s) being passed at the EGM.

Weichai Holdings (which held 1,422,550,620 Shares representing approximately 16.30% of the issued Shares of the Company as at the Latest Practicable Date) and its associates will abstain from voting on the resolutions in respect of the Non-exempt Continuing Connected Transactions. Save as the aforesaid, no Shareholder is required to abstain from voting in respect of any resolution in the EGM.

The Independent Board Committee, comprising all the independent non-executive Directors, (namely, Ms. Jiang Yan, Mr. Chi Deqiang, Mr. Zhao Fuquan, Mr. Xu Bing and Mr. Tao Huaan) has been appointed to consider the Non-exempt Continuing Connected Transactions and the respective Revised Caps and 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 non-exempt continuing connected transaction in respect of the Weichai Freshen Air Purchase Agreement announced on 23 November 2022 (details of which were set out in the circular of the Company dated 8 December 2022) and the non-exempt continuing connected transactions in respect of the New Framework Agreements announced on 30 August 2023 (details of which were set out in the circular of the Company dated 30 November 2023). 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 2023 annual report and 2024 interim results announcement of the Company, the historical transaction amounts, the Letter from the Board and the samples of transactions of the Company relating to the Non-exempt Continuing Connected Transactions.

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 Revised Caps and 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 Revised Caps and 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 2023, the Company's revenue increased by 22.2% as compared with that in the corresponding period of 2022 to approximately RMB213,958 million. Net profit attributable to the shareholders of the Company amounted to approximately RMB9,014 million, representing an increase of approximately 83.8% as compared with that in the corresponding period of 2022. Basic earnings per share was RMB1.04, representing an increase of approximately 84.5% as compared with that in the corresponding period of 2022.

According to the Company's interim results announcement for the six months ended 30 June 2024 (the "**2024 Interim Results Announcement**"), the Company's revenue amounted to approximately RMB112,490 million, an increase of approximately 6.0% and net profit attributable to the shareholders of the Company amounted to approximately RMB5,903 million, an increase of approximately 51.4% as compared with that in the corresponding period of 2023.

2. Overview of the major products of the Group

According to the Company's 2024 Interim Results Announcement, the following is an extract of the overview of the operating conditions of the major products of the Group:

(i) Power System Business

The Company released the world's first diesel engine with base engine brake thermal efficiency of 53.09%, which set a new world record for four times in a row and marked the Chinese internal combustion engine industry reaching the world's top level. The Company also launched the new generation of 13L/15L/17L natural gas engines, and enhanced the power performance, reliability, affordability and comfort of products to a new level, including the power and performance of the M33 and M55 full series power generation products. The Company also made breakthroughs in key technologies of CVT hydraulic unit, control system and integrated design, and formed a significant differentiated advantage in hydraulic powertrains for construction machinery.

During the reporting period, the market shares of the Company in various segment markets increased steadily which maintained its leading position in various product markets. Sales volume of engines amounted to 400,000 units, representing a year-on-year increase of 9.8%, among which the domestic market share of natural gas heavy-duty engines reached 63.1% and the domestic market share of 6x4 tractor engines with 500hp or above reached 44.6%, firmly occupying the first place in the major segment markets of the industry. Sales volume of gear boxes amounted to 477,000 units, representing a year-on-year increase of 12.1%. Sales volume of axles amounted to 428,000 units, representing a year-on-year increase of 18.7%. The domestic revenue of high-end hydraulic products achieving RMB530 million, representing a year-on-year growth of 6.6%.

(ii) Commercial Vehicle Business

The Company adhered to the strategy of leading with complete vehicles and machineries, continuously enhanced the market competitiveness of its products, and accelerated collaborative upgrading of the industrial chain. Shaanxi Heavy-duty Motor Company Limited, the Company's subsidiary, has stepped up its efforts to explore the market and undertook integrated promotion, and recorded a sales volume of complete vehicles of 63,000 units in the first half of the year, representing a year-on-year increase of 3.6%, which achieved improvements in both scales of production and sales and operational efficiency. Seizing the market opportunity of "oil to gas conversion", the Company achieved new breakthroughs in overseas markets. In the first half of the year, the Company recorded a sales volume of gas vehicles of over 17,000 units, representing a year-on-year increase of 134.3%. Facing the demand of the end market, the Company ranked first in a row in segment markets such as oilfield vehicles and road construction vehicles. By actively responding to the national "Belt and Road Initiative" to tap the market potential of countries within the initiative, the export volume amounted to 30,000 units, representing a market share of 20%, and the overall export sales volume reached the highest level in the same period of the previous years.

(iii) Agricultural Equipment Business

The Company actively responded to the national rural revitalisation strategy, promoted the continuous upgrade of agricultural machinery and equipment and led the industrial chain of agricultural machinery and equipment in China to accelerate towards high-end. Weichai Lovol Intelligent Agricultural Technology Co., Ltd., the Company's subsidiary, has been focusing on the construction of three core capabilities of "intelligent agricultural machinery, precise agriculture and digital agricultural services", so as to activate the development momentum with technological innovation and build the top brand of agricultural machinery in China. With steady increase in market share of the Company's principal business, the Company maintained a high-quality and high-speed development trend. In the first half of the year, the sales revenue recorded a year-on-year increase of 28%, which was a historical new record. The overall sales volume of agricultural machinery products recorded a year-on-year increase of 17%, ranking first in the industry in terms of scale, in which the overseas export sales volume recorded a year-on-year increase of 68%. Through measures such as optimising product mix, increasing channel development in disadvantaged areas and increasing service input, the sales volume of tractors, wheeled machines and crawlers achieved a year-on-year growth, which was significantly higher than the average growth rate in the industry, and the market share of the Company's principal business continued to expand.

(iv) Intelligent Logistics Business

The Company has the world's leading intelligent logistics business segment. KION Group AG ("**KION**"), the Company's overseas controlling subsidiary based in Germany, is a globally leading supplier in the area of intelligent logistics, and is dedicated to providing intelligent logistics solutions for factories, warehouses, distribution centers, etc. around the world. In the first half of 2024, KION overcame the impact of the inflation and supply chain issues and achieved a record-high revenue as compared with the same period in history of EUR5.74 billion, representing a year-on-year increase of 2.1%. The EBIT after adjustment amounted to EUR450 million, representing a year-on-year increase of 28.3% and a significant improvement in profitability. Among which its forklift business (represented by Linde and STIHL) realised a revenue of EUR4.31 billion and the supply chain solution business (represented by the Dematic Group) realised a revenue of EUR1.45 billion.

(v) New Business Format, New Energy and New Technology

The Company firmly implemented the "Dual Carbon" strategy, accelerated the development of the "Three New" businesses, and promoted green and low-carbon development. The quality and efficiency of the Company's new energy business has been improved to create differentiated competitive advantages of "Three Electric" products. The Company developed heavy-duty truck and light-duty truck power battery products with long driving range and realised mass application, the power battery of which had obvious advantages over competing products in terms of charge and discharge temperature rise and energy density, etc. The Company's independently-developed and-designed 220-platform high-speed flat wire motor with obvious advantages in terms of efficiency and power had been put into mass production for light-duty trucks, mine trucks and heavy-duty trucks. The Company planned and developed extended range of products for mine trucks, loaders, bulldozers and tractors, so as to promote the full series layout of non-road hybrid products. The Company's fuel cell core technology led the hydrogen energy sector with excellent product competitiveness among the industry. The Company developed high-power fuel cells for high-speed trunk logistics scenarios, and the system power was increased to 300kW. It accelerated the commercialisation of solid oxide fuel cells with highest power generation efficiency exceeding 60%, combined heat and power efficiency exceeding 90% and accumulated operation exceeding 50,000 hours, providing green and low-carbon solutions for distributed energy and microgrids.

B. Introduction

Reference is made to the announcement of the Company dated 22 August 2024 in relation to, inter alia, the entering into of the Supplemental Agreements and the New Framework Agreements in respect of the Continuing Connected Transactions (being Non-exempt Continuing Connected Transactions).

A summary of the Continuing Connected Transactions and the proposed Revised Caps and New Caps is set out in section II in the Letter from the Board. Further details of the terms of the Supplemental Agreements and the New Framework Agreements, the Existing Caps, the actual transaction amounts of the Continuing Connected Transactions for the relevant periods and the bases of determination of the proposed Revised Caps and New Caps are set out in sections III and IV in the Letter from the Board.

Details of the Non-exempt Continuing Connected Transactions and our analysis are set out in sections C and D below.

C. Revision of annual caps of existing Continuing Connected Transactions

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

1. Continuing Connected Transactions between CNHTC (and its Associates) and the Group

CNHTC

CNHTC is a commercial vehicles manufacturer. It is a state-owned enterprise organised under the laws of the PRC with limited liability and is ultimately governed and controlled by Shandong Provincial People's Government (山東省人民政府).

Shandong Heavy Industry is a substantial shareholder of the Company indirectly holding approximately 16.30% of the issued share capital of the Company. As such, Shandong Heavy Industry is a substantial shareholder of the Company and, in turn, a connected person of the Company. As Shandong Heavy Industry is a holder of 65% of the equity interest in CNHTC, CNHTC is a subsidiary of Shandong Heavy Industry and, accordingly, a connected person of the Company.

Sale of vehicles, vehicle parts and components and related products, engines, engine parts and components and related products, and provision of relevant services by the Company (and its subsidiaries) to CNHTC (and its Associates)

Agreement:	Supplemental Agreement to the Existing CNHTC Supply Agreement
Date:	22 August 2024
Parties:	1. The Company
	2. CNHTC
Term:	1 January 2024 to 31 December 2026

Due to operational needs of the Group, the Company expects that the Existing Cap for the year ending 31 December 2024 under the Existing CNHTC Supply Agreement will be insufficient, and the Group intends to continue to conduct the relevant transactions with CNHTC (and its Associates) following the expiry of the Existing CNHTC Supply Agreement. The Company therefore entered into Supplemental Agreement to the Existing CNHTC Supply Agreement to revise the Existing Cap for the year ending 31 December 2024 and obtain New Caps for the two years ending 31 December 2026.

Save for the said revision of the Existing Caps for the year ending 31 December 2024 to the Revised Cap and the setting of the New Caps for the two years ending 31 December 2026, all other material terms of the Existing CNHTC Supply Agreement remain unchanged.

Pursuant to the Existing CNHTC Supply Agreement (as supplemented by the Supplemental Agreement), the Company and/or other Group Company (as the case may be) shall sell vehicles, vehicle parts and components and related products, engines, engine parts and components and related products and provide relevant services (as the case may be) to the CNHTC Group at market prices and settled on a monthly or quarterly basis (depending on the terms of the definitive agreements to be entered into by the parties), for a term of three years ending 31 December 2026, upon the expiry of which the parties shall have an option to renew the same for a period of three years on a mutually agreed basis. The relevant products are expected to mainly comprise engines, engine parts and components, oil products, axles, transmissions, fuel cells and aftertreatment system products, whereas the relevant services are expected to mainly comprise research and development and consultation services related to such products.

The price of the said products and/or services shall be determined according to the following mechanism, which is the same applied to products and services supplied to independent third party customers: the marketing department of the Company regularly conducts market research and analysis regarding relevant products and/or services, in which a number of factors, including the overall market prices, market shares, ordering situation and performance of major competitors of such products and/or services, are comprehensively considered in order to formulate its pricing proposal which will be put before the price management department of the Company for approval, and the final prices are determined at arm's length negotiation among the parties. In addition, the Company has established a specialised price management department which undertakes price comparison exercises in accordance with the price management workflow adopted by the Company. Given that the price management department of the Company would regularly review the reasonableness of prices and make amendments when necessary, the Group is able to ensure that the prices of the said products and/or services are fair and reasonable and no less favourable than those offered to independent third parties.

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. We observed from the monthly report that the Company has kept abreast of the market environment in respect of recent macro-economic data, industry data and government policies which may have an impact on the industry as a whole and factors which may affect the cost of production and demand for the different product lines of the Company. 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 capital operations department 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. 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 on the basis that the samples of transactions selected have covered the major products and/or services of the Company and are representative as an illustration to prove that the pricing terms with the Company's related party are no less favourable than those with the independent third parties. In this respect, 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 Continuing Connected Transactions 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 can ensure that this Continuing Connected Transaction is conducted on normal commercial terms and on terms no less favourable to the Group than those available to independent third parties, and thus 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 prices, which are on normal commercial terms or better.

The table below summarises the Existing Caps for the three years ending 31 December 2024 for the Continuing Connected Transaction set out in this sub-section:

	2022 *RMB*	**2023** *RMB*	**2024** *RMB*
Existing Cap	16,127,000,000	17,889,000,000	19,758,000,000

The table below summarises the actual transaction amounts involved for the two years ended 31 December 2023 (audited) and the six months ended 30 June 2024 (unaudited) in respect of the Group's sale of relevant products and services to the CNHTC Group and the relevant utilisation rates of each of the relevant Existing Caps:

	For the year ended 31 December 2022 *RMB* *(audited)*	**For the year ended 31 December 2023** *RMB* *(audited)*	**For the six months ended 30 June 2024** *RMB* *(unaudited)*
Actual transaction amount	3,970,718,032	14,180,621,543	9,998,459,831
Approximate utilisation rate *(%)*	24.6	79.3	50.6

As at the Latest Practicable Date, the actual transaction amount for the transactions contemplated under the Existing CNHTC Supply Agreement has not exceeded its Existing Cap for the year ending 31 December 2024.

As illustrated in the table above, the utilisation rate of the Existing Cap for the year ended 31 December 2023 already increased rapidly to approximately 79.3% from 24.6% for the year ended 31 December 2022. Furthermore, the utilisation rate for the year ending 31 December 2024 is already approximately 50.6% for the six months ended 30 June 2024 and the Company sees a need to revise the Existing Cap for the financial year of 2024. In other words, if the actual transaction amount for the second half of the year ending 31 December 2024 is expected to be in the similar amount as for the six months ended 30 June 2024 or more, the utilisation rate for the full year ending 31 December 2024 will exceed the Existing Cap for the year ending 31 December 2024 if it is not revised, and the Existing Cap must therefore be increased in order to accommodate the higher estimated transaction amount for the year ending 31 December 2024. As explained in further detail below, the Company expects that the actual transaction amount for the six months ending 31 December 2024 will be more than that for the six months ended 30 June 2024 and accordingly, proposes to increase the Existing Cap for the year ending 31 December 2024 to RMB23,101,000,000.

According to the Letter from the Board, the sales volume of heavy duty trucks by CNHTC has continued to rank first within the industry, and the sales volume of heavy duty trucks had shown substantive increase in the first half of 2024 as compared to that in the corresponding period in 2023. Since 2023, the domestic price for natural gas remained low, and this has prompted the market's high demand in gas engines, being an area deeply cultivated by the Group for many years. With the Group's competitive edge in such products, coupled with the strengthening synergy effect of the CNHTC's development strategies, the Company expects that there will be a further increase in the sales volume of gas engines and diesel engines by the Group to the CNHTC Group in 2024.

In light of the above, given that the Existing Cap for the year ending 31 December 2024 had already been utilised as to approximately 50.6% by the end of June 2024, the Company estimates that the Existing Cap for this Continuing Connected Transaction will be insufficient in view of the expected increase in sales volume of the relevant products. Accordingly, based on the Group's adjusted sales plan prepared based on the latest market development and on the assumption that the abovementioned trend of growth would continue throughout 2024, it is considered that the annual cap for the year ending 31 December 2024 be adjusted upwards by approximately 16.9% to the Revised Cap of RMB23,101 million from the Existing Cap of RMB19,758 million for the year ending 31 December 2024. In addition, the Company estimates that the transaction amount in respect of the Continuing Connected Transaction set out in this sub-section for the two years ending 31 December 2026 will not exceed RMB26,046 million and RMB28,916 million, respectively, and such amounts have accordingly been set as the proposed New Caps for the two years ending 31 December 2026 for this Continuing Connected Transaction.

We have discussed with the Company and understand that the above proposed Revised Cap for the year ending 31 December 2024 and the proposed New Caps for the two years ending 31 December 2026 have been estimated by the Company primarily based on (i) the relevant historical transaction amounts, (ii) the estimate increase in the number of products required by the CNHTC Group in view of the implementation of the Group's sales plan for the three years ending 2026, having taken into account the estimated market conditions and export performance, the average unit prices of the same, and the costs of the processing services to be provided, (iii) the fact that the Group has since 2019 established a business relationship with the CNHTC Group involving the sale of relevant products and services by the Group to the CNHTC Group for the manufacturing of vehicles by the CNHTC Group. Given the track record of the Group being able to constantly supply products and services of reliable quality to the CNHTC Group, a closer cooperation between the Group and the CNHTC Group has been developed since the beginning of year 2021, further boosting the CNHTC Group's demand for the Group's products and services; (iv) the fact that since 2023, the domestic price for natural gas remained low, and the obvious difference between the price of natural gas and the price of petroleum has prompted a high demand in gas engines, resulting in a thriving market for heavy duty truck gas engines; and (v) a buffer in preparation of possible market fluctuations.

Taking into account and on the basis of all the aforesaid factors, it is estimated that the overall transaction amount of the sale of products and services by the Group to the CNHTC Group will increase by approximately 16.9% for the year ending 31 December 2024 as compared with the Existing Cap for the same year, and further by approximately 12.7% and 11.0% for each of the years ending 31 December 2025 and 31 December 2026, respectively.

The table below sets out the proposed Revised Cap and New Caps for the Continuing Connected Transaction set out in this sub-section for the three years ending 31 December 2026:

	2024	**2025**	**2026**
	RMB	*RMB*	*RMB*
Proposed Revised Cap and New Cap	23,101,000,000	26,046,000,000	28,916,000,000
Approximate change in the cap year-on-year *(%)*	16.9 *(Note)*	12.7	11.0

Note: The approximate change in the cap year-on-year for 2024 represents the percentage change from Existing Cap for 2024.

Having considered the above reasons, in particular the high utilisation rate for the six months ended 30 June 2024 of approximately 50.6% and the expected increase in the number of products and unit prices of the sale of products and services to the CNHTC Group, as supported by the significant growth in the sales volume of heavy duty trucks in the first half of 2024 and the estimated rise in the demand for products required by the CNHTC Group after reviewing the Group's sales plan for the three years ending 2026, and our assessment above that if the actual transaction amount for the second half of the year ending 31 December 2024 is expected to be in the similar amount as for the six months ended 30 June 2024 or more, the utilisation rate for the full year ending 31 December 2024 will exceed the Existing Cap for the year ending 31 December 2024 if it is not revised, we consider that the proposed Revised Cap and New Caps, including the proposed percentage increase of approximately 16.9% of the Existing Cap for the year ending 31 December 2024 and the proposed increase of approximately 12.7% and 11.0% for the two years ending 31 December 2026 respectively, are fair and reasonable.

2. *Continuing Connected Transactions between Weichai Combustion and the Group*

Weichai Combustion

Weichai Combustion (formerly known as 濰柴西港新能源動力有限公司 (Weichai Westport Inc.)) 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

Combustion is held as to 74.33% 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 (山東省人民政府). Accordingly, Weichai Combustion is a connected person of the Company.

Purchase of gas engines, gas engine parts and related products and receipt of labour and related services by the Company (and its subsidiaries) from Weichai Combustion

Agreement:	Supplemental Agreement to the Weichai Westport Purchase Agreement
Date:	22 August 2024
Parties:	1. The Company 2. Weichai Combustion
Term:	1 January 2024 to 31 December 2026

Due to operational needs of the Group, the Company expects that the Existing Caps for the three years ending 31 December 2026 under the Weichai Westport Purchase Agreement will be insufficient. The Company therefore entered into the Supplemental Agreement to the Weichai Westport Purchase Agreement, to revise the Existing Caps to the Revised Caps for the three years ending 31 December 2026.

Save for the said revision of Existing Caps to the Revised Caps, all other material terms of the Weichai Westport Purchase Agreement remain unchanged.

Pursuant to the Weichai Westport Purchase Agreement (as supplemented by the relevant Supplemental Agreement), the Company and its subsidiaries shall purchase certain gas engines, gas engine parts and related products and receive labour and related services from Weichai Combustion, 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 may extend the term for three years on a mutually agreed basis.

The price of the said products and services is determined according to the following mechanism, which is the same applied to products and services procured from independent third party suppliers: the procurement department of the Company shall regularly carry out market research and analysis, 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. In addition, the Company has established a specialised price management department which undertakes price comparison exercises in accordance with the price management workflow adopted by the Company. Given that the price management department of the Company would review the reasonableness of the price on a regular basis and make adjustments where necessary, the Group is able to ensure that the prices of the said products and/or services are fair and reasonable and no less favourable than those procured from independent third parties.

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. We observed from the monthly report that the Company has kept abreast of the market environment in respect of recent macro-economic data, industry data and government policies which may have an impact on the industry as a whole and factors which may affect the cost of production and demand for the different product lines of the Company. 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 capital operations department 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. 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 on the basis that the samples of transactions selected have covered the major products and/or services of the Company and are representative as an illustration to prove that the pricing terms with the Company's related party are no less favourable than those with the independent third parties. In this respect, 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 Continuing Connected Transactions 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 can ensure that this Continuing Connected Transaction is conducted on normal commercial terms and on terms no less favourable to the Group than those available from independent third parties, and thus not prejudicial to the interests of the Company and the minority Shareholders, and we concur that such methods and procedures will ensure that the Company will obtain terms, including market prices, which are on normal commercial terms or better.

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

	2024 *RMB*	**2025** *RMB*	**2026** *RMB*
Existing Cap	4,644,000,000	4,656,000,000	4,704,000,000

The table below summarises the actual transaction amounts involved for each of the two years ended 31 December 2023 (audited) and the six months ended 30 June 2024 (unaudited) for the Continuing Connected Transaction set out in this sub-section and the relevant utilisation rates of each of the relevant Existing Caps:

	For the year ended 31 December 2022 *RMB* *(audited)*	**For the year ended 31 December 2023** *RMB* *(audited)*	**For the six months ended 30 June 2024** *RMB* *(unaudited)*
Actual transaction amount	810,590,661	4,704,195,346	2,706,705,895
Approximate utilisation rate *(%)*	12.8	62.1	58.3

As at the Latest Practicable Date, the actual transaction amount for the transactions contemplated under the Weichai Westport Purchase Agreement has not exceeded its Existing Cap for the year ending 31 December 2024.

As illustrated in the table above, the utilisation rate for the year ending 31 December 2024 is already approximately 58.3% for the six months ended 30 June

2024 and the Company sees a need to revise the Existing Cap for the financial year of 2024. In other words, if the actual transaction amount for the second half of the year ending 31 December 2024 is expected to be in the similar amount as for the six months ended 30 June 2024 or more, the utilisation rate for the full year ending 31 December 2024 will exceed the Existing Cap for the year ending 31 December 2024 if it is not revised, and the Existing Cap must therefore be increased in order to accommodate the higher estimated transaction amount for the year ending 31 December 2024. As explained in further detail below, the Company expects that the actual transaction amount for the six months ending 31 December 2024 will be more than that for the six months ended 30 June 2024 and accordingly, proposes to increase the Existing Cap for the year ending 31 December 2024 to RMB6,238,000,000.

We have discussed with the Company and understand that, since 2023, the domestic price for natural gas remained low, and the obvious difference between the price of natural gas and the price of petroleum has prompted a high demand in gas engines, resulting in a thriving market for heavy duty truck gas engines. The gas engine market has been an area deeply cultivated by the Group for many years, and with the Group's competitive edge in such products, it is expected that such trend on the increase in the sales volume of gas engines by the Group will continue in 2024. Accordingly, it is expected that there will be a further demand for gas engine and the relevant parts from Weichai Combustion in the production of gas engines by the Group in 2024.

In light of the above, given that the Existing Cap for the year ending 31 December 2024 has been utilised as to approximately 58.3% by the end of June 2024, the Company estimates that the Existing Caps for this Continuing Connected Transaction will be insufficient.

Based on the above expected increase in demand for Weichai Combustion's products by the Group, it is considered that the Revised Cap for the year ending 31 December 2024 be adjusted upwards, by approximately 34.3%, to RMB6,238,000,000 from the Existing Cap of RMB4,644,000,000 for the year ending 31 December 2024 to reflect the latest development trend. 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 from Weichai Combustion on an annual basis will increase by approximately 10.0% and 9.8% for each of the two years ending 31 December 2026, respectively, and accordingly, RMB6,860,000,000 and RMB7,535,000,000 have been set as the Revised Caps for the two years ending 31 December 2026 for this Continuing Connected Transaction.

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

	2024	2025	2026
	RMB	*RMB*	*RMB*
Proposed Revised Cap	6,238,000,000	6,860,000,000	7,535,000,000
Approximate change in the cap year-on-year *(%)*	34.3 *(Note)*	10.0	9.8

Note: The approximate change in the cap year-on-year for 2024 represents the percentage change from Existing Cap for 2024.

Having considered the above reasons, in particular the high utilisation rate for the six months ended 30 June 2024 of approximately 58.3% and the expected high demand for gas engines, as supported by the market research conducted by the Group on the price of natural gas and the price of petroleum which has prompted a high demand in gas engines and the estimated further rise in demand for gas engine and the relevant parts from Weichai Combustion in the production of gas engines by the Group after reviewing the Group's business plan, and our assessment above that if the actual transaction amount for the second half of the year ending 31 December 2024 is expected to be in the similar amount as for the six months ended 30 June 2024 or more, the utilisation rate for the full year ending 31 December 2024 will exceed the Existing Cap for the year ending 31 December 2024 if it is not revised, we consider that the proposed Revised Caps, including the proposed percentage increase of approximately 34.3% of the Existing Cap for the year ending 31 December 2024 and the proposed increase of approximately 10.0% and 9.8% for the two years ending 31 December 2026 respectively, are fair and reasonable.

D. Renewal of Existing Framework Agreements

The renewal of Existing Framework Agreements include the following which are Non-exempt Continuing Connected Transactions:

1. *Continuing Connected Transactions between Weichai Heavy Machinery (and its subsidiaries) and the Group*

Weichai Heavy Machinery

Weichai Heavy Machinery is principally engaged in the manufacture and sale of medium-speed diesel engines and diesel engine parts and components, power generators and related products, and construction machinery and the provision of repair processing services for machinery parts. Weichai Heavy Machinery is a company whose shares are listed on the Shenzhen Stock Exchange (stock code: 000880) and its single largest shareholder, Weichai Holdings, holds approximately 30.59% of its issued shares. To the best knowledge, information and belief of the Directors and having made all reasonable enquiries: (i) Weichai Holdings is wholly-owned by Shandong Heavy Industry, which is in turn one of the leading automobile and equipment groups in the PRC, and (ii) Shandong Heavy Industry is ultimately governed and controlled by the Shandong Provincial People's Government.

Weichai Heavy Machinery is an associate of Weichai Holdings (a substantial shareholder of the Company), and accordingly, Weichai Heavy Machinery is a connected person of the Company.

(a) Sale of diesel engines and related products and raw materials, and provision of labour and technical related services, etc. by the Company (and its subsidiaries) to Weichai Heavy Machinery (and its subsidiaries)

The Existing Weichai Heavy Machinery Sale and Supply Agreements which govern certain continuing connected transactions in respect of sale of certain products and services by the Group to the Weichai Heavy Machinery Group shall expire by the end of 31 December 2024, and the Company intends to continue to carry out such continuing connected transactions following expiry of the Existing Weichai Heavy Machinery Sale and Supply Agreements.

Following a recent review by the Company of the relevant transactions governed under the Existing Weichai Heavy Machinery Sale and Supply Agreements, whilst the Group intends to continue the existing Continuing Connected Transactions with the Weichai Heavy Machinery Group following the expiry of the Existing Weichai Heavy Machinery Sale and Supply Agreements, considering that the Existing Weichai Heavy Machinery Sale and Supply Agreements both relate to the supply of products and/or services by the Group to the Weichai Heavy Machinery Group, the Board has resolved that, going forward, the transactions regulated under the Existing Weichai Heavy Machinery Sale and Supply Agreements shall be combined into one framework agreement, such that the Shareholders could be presented with a more streamlined view of the continuing connected transactions involving the Group's sale of products and/or services to the Weichai Heavy Machinery Group and, in turn, enable the Shareholders to better appreciate the extent of the Group's supply of products and/or services to the Weichai Heavy Machinery Group on an aggregated basis.

Accordingly, on 22 August 2024, the Company (for itself and on behalf of its subsidiaries) and Weichai Heavy Machinery (for itself and on behalf of the Weichai Heavy Machinery Group) entered into the New Weichai Heavy Machinery Supply Agreement on terms substantially the same as those of the Existing Weichai Heavy Machinery Sale and Supply Agreements (on a combined basis).

The principal terms of the New Weichai Heavy Machinery Supply Agreement and the transactions contemplated thereunder are as follows:

Agreement:	New Weichai Heavy Machinery Supply Agreement
Date:	22 August 2024
Parties:	1. The Company
	2. Weichai Heavy Machinery
Term:	1 January 2025 to 31 December 2027

Pursuant to the New Weichai Heavy Machinery Supply Agreement, the Company (and/or other Group Company) (as the case may be) shall sell to the Weichai Heavy Machinery Group diesel engines and related products and raw materials, and provide labour and technical related services, etc. (as the case may be) at market prices and settled on a monthly or quarterly basis (depending on the terms of the definitive agreements to be entered into by the parties), for a term of three years ending 31 December 2027, upon the expiry of which the parties may renew the term for another three years on a mutually agreed basis. The relevant products are expected to mainly comprise engines and oil products, whereas the relevant services are expected to mainly comprise technical support, warehousing and logistic services related to such products.

The price of the said products and/or services shall be determined according to the following mechanism, which is the same applied to products and services supplied to independent third party customers: the marketing department of the Company regularly conducts market research and analysis regarding specific products and/or services, in which a number of factors, including the overall market prices, market shares, ordering situation and performance of major competitors of such products and/or services, are comprehensively considered in order to formulate its pricing proposal which will be put before the price management department of the Company for approval, and the final prices are determined at arm's length negotiation among the parties. In addition, the Company has established a specialised price management department which undertakes price comparison exercises in accordance with the price management workflow adopted by the Company. Given that the price management department of the Company would regularly review the reasonableness of prices and make amendments when necessary, the Group is able to ensure that the prices of the said products and/or services are fair and reasonable and no less favourable than those offered to independent third parties.

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. We observed from the monthly report that the Company has kept abreast of the market environment in respect of recent macro-economic data, industry data and government policies which may have an impact on the industry as a whole and factors which may affect the cost of production and demand for the different product lines of the Company. 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 capital operations department 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. 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 on the basis that the samples of transactions selected have covered the major products and/or services of the Company and are representative as an illustration to prove that the pricing terms with the Company's related party are no less favourable than those with the independent third parties. In this respect, 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 Continuing Connected Transactions 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 can ensure that this Continuing Connected Transaction is conducted on normal commercial terms and on terms no less favourable to the Group than those available to independent third parties, and thus 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 prices, which are on normal commercial terms or better.

The table below summarises the Existing Caps for the three years ending 31 December 2024 for the transactions contemplated under the Existing Weichai Heavy Machinery Sale and Supply Agreements:

	2022	**2023**	**2024**
	RMB	*RMB*	*RMB*
Existing Caps:			
(a) under the Existing Weichai Heavy Machinery Sale Agreement	900,000,000	1,060,000,000	1,200,000,000
(b) under the Existing Weichai Heavy Machinery Supply Agreement	200,000,000	210,000,000	240,000,000
On an aggregated basis:	1,100,000,000	1,270,000,000	1,440,000,000

The table below summarises the actual transaction amounts involved for the two years ended 31 December 2023 (audited) and the six months ended 30 June 2024 (unaudited) for the transactions contemplated under the Existing Weichai Heavy Machinery Sale and Supply Agreements and the relevant utilisation rates of each of the relevant Existing Caps on an aggregated basis:

	Year ended 31 December 2022	**Year ended 31 December 2023**	**Six months ended 30 June 2024**
	RMB	*RMB*	*RMB*
	(audited)	*(audited)*	*(unaudited)*
Actual transaction amount:			
(a) under the Existing Weichai Heavy Machinery Sale Agreement	846,600,282	928,097,124	478,760,772
(b) under the Existing Weichai Heavy Machinery Supply Agreement	70,739,256	194,911,448	77,798,926
On an aggregated basis:	917,339,538	1,123,008,572	556,559,698
Approximate utilisation rate *(%)*	83.4	88.4	38.6

As mentioned above, going forward, the transactions regulated under the Existing Weichai Heavy Machinery Sale and Supply Agreements shall be combined into one framework agreement, and we will only consider the utilisation rate on an aggregated basis. As shown above, the utilisation rates for the two years ended 31 December 2022 and 2023 were relatively high at approximately 83.4% and 88.4% respectively and the utilisation rate for the six months ended 30 June 2024 was approximately 38.6% on an aggregated basis. As explained in further detail below, according to the Company's estimation, the Existing Cap for the year ending 31 December 2024 will be utilised as to approximately 90% based on the existing circumstances of the Group's sales and the expected development trend in the second half of 2024.

According to the Letter from the Board, the Company is a leading manufacturer of diesel engines in the PRC and this evidences the quality and competitiveness of the Group's diesel engines generally. With the proximity between the Company's production facilities and those of Weichai Heavy Machinery, and in view of the high quality and the competitiveness of the Company's engines, the Company believes that the Weichai Heavy Machinery Group will continue to purchase the Group's diesel engines for the manufacture of power generators and purchase the Group's semi-finished diesel engine parts, diesel engine parts and components, reserve parts and related products for the manufacture of its products, including medium-speed diesel engines and power generators. It is expected that in the foreseeable few years the Chinese economy will continue to steadily recover; in recent years, the relevant national departments issued certain policies including the Action Plan for Promoting Large-scale Equipment Renewals and Consumer Goods Trade-ins (《推動大規模設備更新和消費品以舊換新行動方案》), the Implementation Opinions on Accelerating Green and Smart Development of Ships for Inland Waterways《關於加快內河船舶綠色智能發展的實施意見》, Five-year Action Plan for Accelerating the Building of a Nation with Strong Transportation (2023-2027)《加快建設交通強國五年行動計劃(2023-2027年)》, the Action Plan for the Green Development of Shipbuilding Industry (2024-2030)《船舶製造業綠色發展行動綱要(2024-2030年)》, driving the positive development of the national shipbuilding industry and showing a stable and positive development trend, and the domestic large diameter medium-speed engines has encountered new development opportunities. The aforesaid factors shall in turn drive the Weichai Heavy Machinery Group's demand for the Group's said products and services, and accordingly it is expected that there will be further expansion of the business cooperation between the Group and the Weichai Heavy Machinery.

The Company estimates that the transaction amount in respect of the Continuing Connected Transaction set out in this sub-section for the three years ending 31 December 2027 will not exceed RMB1,500 million, RMB1,560 million and RMB1,620 million, respectively, and such amounts have accordingly been set as the proposed New Caps for this Continuing Connected Transaction.

We have discussed with the Company and understand that the proposed New Caps have been prepared by the Company primarily based on (i) the historical costs, (ii) the estimate of the volume of the said diesel engine and related products, semi-finished diesel engine parts, diesel engine parts and components, reserve parts and related products required by the Weichai Heavy Machinery Group, and (iii) the average unit prices of the said diesel engine and related products, semi-finished diesel engine parts, diesel engine parts and components, reserve parts and related products. Taking into account and on the basis of all the aforesaid factors, as well as the estimation that the Existing Cap for the year ending 31 December 2024 will be utilised as to approximately 90% based on the existing circumstances of the Group's sales and the expected development trend in the second half of 2024, the New Cap for the year ending 31 December 2025 has been adjusted upwards by approximately 4.2% compared to the Existing Cap for the year ending 31 December 2024, and it is estimated that, comparing to each of the years ending 31 December 2025 and 2026, the overall transaction amounts for the said sale of products and services will further increase by approximately 4.0% and 3.8% for each of the years ending 31 December 2026 and 31 December 2027, respectively.

The table below summarises the New Caps for the Weichai Continuing Connected Transaction set out in this sub-section for the three years ending 31 December 2027:

	2025 *RMB*	**2026** *RMB*	**2027** *RMB*
New Cap	1,500,000,000	1,560,000,000	1,620,000,000
Approximate change in the cap year-on-year *(%)*	4.2	4.0	3.8

Having considered the above reasons, in particular, according to the Company's estimation, the expected high utilisation rate for the financial year ending 31 December 2024 of approximately 90% and the expected increase in the sales volume and unit price for diesel engine and related products, semi-finished diesel engine parts, diesel engine parts and components, reserve parts and related products, as supported by the relevant policies issued by national departments which drive the positive development of the national shipbuilding industry leading to the prediction of a stable and positive development trend, and the estimated rise in demand of Weichai Heavy Machinery Group for the Group's said products and services after reviewing the Group's business plan for the three years ending 31 December 2027, and our assessment above that the utilisation rates for the two years ended 31 December 2022 and 2023 were relatively high at approximately 83.4% and 88.4% respectively, we consider that the New Caps, including the proposed percentage increase of approximately 4.2% of the New Cap for the year ending 31 December 2025 and the proposed increase of approximately 4.0% and 3.8% for the two years ending 31 December 2027 respectively, are fair and reasonable.

(b) Purchase of diesel engines and related products and raw materials, and receipt of labour and technical related services, etc. by the Company (and its subsidiaries) from Weichai Heavy Machinery (and its subsidiaries)

Agreement:	New Weichai Heavy Machinery Purchase Agreement
Date:	22 August 2024
Parties:	1. The Company
	2. Weichai Heavy Machinery
Term:	1 January 2025 to 31 December 2027

The terms of the New Weichai Heavy Machinery Purchase Agreement are substantially the same as those of the Existing Heavy Machinery Purchase Agreement.

Pursuant to the New Weichai Heavy Machinery Purchase Agreement, the Company, and/or other Group Company (as the case may be) shall purchase certain diesel engines and related products and raw materials, and receive related labour and technical services, etc. from the Weichai Heavy Machinery Group at market prices and settled on a monthly or quarterly basis (depending on the terms of the definitive agreements to be entered into by the parties), for a term of three years ending 31 December 2027, upon the expiry of which the parties shall have an option to renew the term for another three years on a mutually agreed basis. The relevant products are expected to mainly comprise ship engines, generators, semi-finished parts and components, whereas the relevant services are expected to mainly comprise technical support and labour services related to such products.

The price of the said products and/or services shall be determined according to the following mechanism, which is the same applied to products and services procured from independent third party suppliers: the procurement department of the Company regularly conducts market research and analysis regarding specific products and/or services, in which a number of factors, including the overall market prices, market shares, ordering situation and performance of major competitors of such products and/or services, are comprehensively considered in order to formulate its pricing proposal which will be put before the price management department of the Company for approval, and the final prices are determined at arm's length negotiation among the parties. In addition, the Company has established a specialised price management department which undertakes price comparison exercises in accordance with the price management workflow adopted by the Company. Given that the price management department of the Company would regularly review the reasonableness of prices and make amendments when necessary, the Group is able to ensure that the prices of the said products and/or services are fair and reasonable and no less favourable than those procured from independent third parties.

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. We observed from the monthly report that the Company has kept abreast of the market environment in respect of recent macro-economic data, industry data and government policies which may have an impact on the industry as a whole and factors which may affect the cost of production and demand for the different product lines of the Company. 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 capital operations department 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. 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 on the basis that the samples of transactions selected have covered the major products and/or services of the Company and are representative as an illustration to prove that the pricing terms with the Company's related party are no less favourable than those with the independent third parties. In this respect, 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 Continuing Connected Transactions 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 can ensure that this Continuing Connected Transaction is conducted on normal commercial terms and on terms no less favourable to the Group than those available from independent third parties, and thus 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 prices, which are on normal commercial terms or better.

The table below summarises the Existing Caps for the three years ending 31 December 2024 for the Continuing Connected Transaction set out in this sub-section:

	2022 *RMB*	**2023** *RMB*	**2024** *RMB*
Existing Caps	1,320,000,000	1,500,000,000	1,750,000,000

The table below summarises the actual transaction amounts involved for the purchases and services for the two years ended 31 December 2023 (audited) and the six months ended 30 June 2024 (unaudited) for the Continuing Connected Transaction set out in this sub-section and the relevant utilisation rates of each of the relevant Existing Caps:

	For the year ended 31 December 2022 *RMB* *(audited)*	**For the year ended 31 December 2023** *RMB* *(audited)*	**For the six months ended 30 June 2024** *RMB* *(unaudited)*
Actual transaction amount	723,039,060	778,279,789	427,948,578
Approximate utilisation rate *(%)*	54.8	51.9	24.5

As illustrated above, the utilisation rates for the two years ended 31 December 2023 were only approximately 54.8% and 51.9% respectively and the utilisation rate for the six months ended 30 June 2024 was relatively low at approximately 24.5%.

In light of the above, the Company estimates that the aggregate transaction amounts in respect of the Continuing Connected Transaction set out in this sub-section will not exceed RMB1,340 million, RMB1,510 million and RMB1,730 million for each of the three years ending 31 December 2027 and therefore such amount has accordingly been set as the New Caps for this Continuing Connected Transaction.

In 2022 and 2023, the economic recovery was slower than expected. Affected by the weak performance of the heavy duty vehicle industry, the purchase by the Group from the Weichai Heavy Machinery Group was less than expected. However, in the first half of 2024, along with the improvement of economic conditions and the introduction of policies which resulted in the gradual release of demand, the favourable factors for industry development have increased, accordingly, it is expected that the heavy duty vehicle industry will rebound. This has been evidenced by the actual transaction amounts for the first half of 2024. The Company expects that the aforesaid transaction amounts in respect of the purchase of diesel engines and related products and raw materials and receipt of labour and technical related services by the Group from Weichai Heavy Machinery Group will maintain steady increase for the three years ending 31 December 2027.

The table below summarises the New Caps for the Continuing Connected Transaction set out in this sub-section for the three years ending 31 December 2027:

	2025	**2026**	**2027**
	RMB	*RMB*	*RMB*
New Cap	1,340,000,000	1,510,000,000	1,730,000,000
Approximate change in the cap year-on-year *(%)*	-23.4	12.7	14.6

We have discussed with the Company and understand that the above New Caps have been estimated by the Company primarily based on (i) the relevant historical costs, (ii) the estimate of its production volume, having taken into account the development of the heavy-duty truck and construction machinery markets, the average unit prices of finished diesel engine parts and in view of the implementation of the Group's procurement plan for the years 2025 to 2027, and (iii) the increase in the market prices of the relevant diesel engines and related products and the costs of labour and technical services to be purchased by the Group. Taking into account the relatively low utilisation rate of the Existing Caps, the New Cap for the year ending 31 December 2025 has been adjusted downwards by approximately 23.4% compared to the Existing Cap for the year ending 31 December 2024, and further, taking into account and on the basis of all the abovementioned factors, the overall transaction amounts for the said purchase of products and services will further increase by approximately 12.7% and 14.6% for each of the years ending 31 December 2026 and 31 December 2027 respectively, are fair and reasonable.

Due to the above reasons, including but not limited to the expected low utilisation rate, as stated in our assessment above that the utilisation rates for the two years ended 31 December 2022 and 2023 were only approximately 54.8% and 51.9% respectively, we agree that the New Caps, including the proposed cap for the year ending 31 December 2025 be reduced by approximately 23.4% to RMB1,340,000,000 from RMB1,750,000,000 for the year ending 31 December 2024, are fair and reasonable. Also, after reviewing the Group's procurement plan for the three years ending 31 December 2027, including the estimated future production volume and average unit prices of relevant diesel engine parts as stated in the above, we agree that the further increase in the proposed caps of approximately 12.7% and 14.6% for each of the years ending 31 December 2026 and 31 December 2027 respectively, are fair and reasonable.

2. ***Continuing Connected Transactions between CNHTC (and its Associates) and the Group***

CNHTC

CNHTC is a commercial vehicles manufacturer. It is a state-owned enterprise organised under the laws of the PRC with limited liability and is ultimately governed and controlled by Shandong Provincial People's Government (山東省人民政府).

Shandong Heavy Industry is a substantial shareholder of the Company indirectly holding approximately 16.30% of the issued share capital of the Company. As such, Shandong Heavy Industry is a substantial shareholder of the Company and, in turn, a connected person of the Company. As Shandong Heavy Industry is a holder of 65% of the equity interest in CNHTC, CNHTC is an associate of Shandong Heavy Industry and, accordingly, a connected person of the Company.

Purchase of vehicles, vehicle parts and components and related products, engines, engine parts and components and related products, and receipt of relevant services, etc. by the Company (and its subsidiaries) from CNHTC (and its Associates)

Agreement:	New CNHTC Purchase Agreement
Date:	22 August 2024
Parties:	1. The Company
	2. CNHTC
Term:	1 January 2025 to 31 December 2027

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

Pursuant to the New CNHTC Purchase Agreement, the CNHTC Group shall supply certain vehicles, vehicle parts and components and related products, engines, engine parts and components and related products and provide relevant services, etc. (as the case may be) to the Company and/or other Group Company (as the case may be) at market prices and settled on a monthly or quarterly basis (depending on the terms of the definitive agreements to be entered into by the parties), for a term of three years ending 31 December 2027, upon the expiry of which the parties shall have an option to renew the same for a period of three years on a mutually agreed basis. The relevant products are expected to mainly comprise vehicle compartments, fuel injectors and complete vehicles, whereas the relevant services are expected to mainly comprise warehousing and logistics services related to such products.

The price of the said products and/or services shall be determined according to the following mechanism, which is the same applied to products and services procured from independent third party suppliers: the procurement department of the Company regularly conducts market research and analysis regarding specific products and/or services, in which a number of factors, including the overall market prices, market shares, ordering situation and performance of major competitors of such products and/or services, are comprehensively considered in order to formulate its pricing proposal which will be put before the price management department of the Company for approval, and the final prices are determined at arm's length negotiation among the parties. In addition, the Company has established a specialised price management department which undertakes price comparison exercises in accordance with the price management workflow adopted by the Company. Given that the price management department of the Company would regularly review the reasonableness of prices and make amendments when necessary, the Group is able to ensure that the prices of the said products and/or services are fair and reasonable and no less favourable than those procured from independent third parties.

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. We observed from the monthly report that the Company has kept abreast of the market environment in respect of recent macro-economic data, industry data and government policies which may have an impact on the industry as a whole and factors which may affect the cost of production and demand for the different product lines of the Company. 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 capital operations department 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. 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 on the basis that the samples of transactions selected have covered the major products and/or services of the Company and are representative as an illustration to prove that the pricing terms with the Company's related party are no less favourable than those with the independent third parties. In this respect, 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 Continuing Connected Transactions 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 can ensure that this Continuing Connected Transaction is conducted on normal commercial terms and on terms no less favourable to the Group than those available from independent third parties, and thus 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 prices, which are on normal commercial terms or better.

The table below summarises the Existing Caps for the three years ending 31 December 2024 for the Continuing Connected Transaction set out in this sub-section:

	2022	**2023**	**2024**
	RMB	*RMB*	*RMB*
Existing Cap	617,000,000	847,000,000	1,083,000,000

The table below summarises the actual transaction amounts involved for the two years ended 31 December 2023 (audited) and the six months ended 30 June 2024 (unaudited) in respect of the Group's purchase of relevant products and services from the CNHTC Group and the relevant utilisation rates of each of the relevant Existing Caps:

	For the year ended 31 December 2022 *RMB* *(audited)*	**For the year ended 31 December 2023** *RMB* *(audited)*	**For the six months ended 30 June 2024** *RMB* *(unaudited)*
Actual transaction amount	320,062,740	740,678,752	347,170,225
Approximate utilisation rate *(%)*	51.9	87.4	32.1

As illustrated above, the utilisation rates for the two years ended 31 December 2023 were approximately 51.9% and 87.4% respectively and the utilisation rate for the six months ended 30 June 2024 was relatively low at approximately 32.1%. As explained in further detail below, according to the Company's estimation, the Existing Cap for the year ending 31 December 2024 will be utilised as to approximately 74% based on the existing circumstances of the Group's procurement and the expected development trend in the second half of 2024.

The Company estimates that the transaction amounts in respect of the Continuing Connected Transaction set out in this sub-section for the three years ending 31 December 2027 will not exceed RMB845 million, RMB894 million and RMB952 million, respectively, and such amounts have accordingly been set as the proposed New Caps for this Continuing Connected Transaction.

We have discussed with the Company and understand that the above proposed New Caps have been estimated by the Company primarily based on (i) the relevant historical costs, (ii) its estimate of an increase in transaction volume of the said purchases in view of the implementation of the Group's sales plan for the years 2025 to 2027, which in turn is based on the estimated production volume, material cost, processing cost and the volume of diesel engines to be sold and exported, (iii) the fact that the Group has since 2019 established a business relationship with the CNHTC Group involving the supply of relevant products and services by the CNHTC Group to the Group for the processing and manufacturing of vehicles and vehicle engines, and (iv) the increased demands from customers of the Group requesting for the installation of vehicle parts and components and engines from the CNHTC Group, and the Group's anticipated adjustment in replacing third party suppliers with the CNHTC Group in order to meet with such demands. Given the track record of CNHTC Group being able to constantly supply products and services of reliable quality to the Group, it is expected the Group will undertake closer cooperation with the CNHTC Group. Although the utilisation rate of the Existing Cap for the year ended 31 December 2022 was relatively low mainly due to an unexpected change of the then market circumstances, it is estimated that the Existing Cap for the year ending 31 December 2024 will be utilised as to approximately 74% based on the existing circumstances of the Group's procurement and expected development trend in the second half of 2024, and the said further cooperation is expected to bring synergy effect to both the Group and the CNHTC Group and accordingly will bring more businesses and source of revenue for the Group.

The table below sets out the proposed New Caps for the Continuing Connected Transaction set out in this sub-section for the three years ending 31 December 2027:

	2025	**2026**	**2027**
	RMB	*RMB*	*RMB*
Proposed New Caps	845,000,000	894,000,000	952,000,000
Approximate change in the cap year-on-year *(%)*	-22.0	5.8	6.5

Taking into account the relatively low utilisation rate of the Existing Caps and on the basis of all the aforesaid factors, the New Cap for the year ending 31 December 2025 has been adjusted downwards by approximately 22.0% compared to the Existing Cap for the year ending 31 December 2024, and it is estimated that, comparing to each of the years ending 31 December 2025 and 2026, the overall transaction amounts for the said purchase of products and services will further increase by approximately 5.8% and 6.5% for each of the years ending 31 December 2026 and 31 December 2027, respectively.

Due to the above reasons, including but not limited to the expected utilisation rate of approximately 74% for the year ending 31 December 2024, which is based on the existing circumstances of the Group's procurement and expected development trend in the second half of 2024 as stated above, we agree that the New Caps, including the proposed cap for the year ending 31 December 2025 be reduced by approximately 22.0% to RMB845,000,000 from RMB1,083,000,000 for the year ending 31 December 2024, are fair and reasonable. Also, after reviewing the sales plan of the Group for the three years ending 31 December 2027, including the estimated increase in the transaction volume of the said purchases which in turn is based on the estimated production volume, material cost, processing cost and the volume of diesel engines to be sold and exported as stated above, we agree that the further increase of approximately 5.8% and 6.5% in the proposed caps for each of the years ending 31 December 2026 and 31 December 2027 respectively, are fair and reasonable.

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 Non-exempt Continuing Connect Transactions are as follows:

1. *Continuing Connected Transactions between Weichai Heavy Machinery (and its subsidiaries) 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 such transactions have been continuing since the listing of the Company on the Stock Exchange. After the completion of the Weichai Holdings Juli Restructuring in 2007, certain of these continuing transactions with Weichai Holdings were transferred to Weichai Heavy Machinery.

According to the Letter from the Board, as the Company has conducted these Continuing Connected Transactions with the Weichai Heavy Machinery Group for many years and the Company has built up a long term strategic and solid business relationship with the Weichai Heavy Machinery Group, the Board considers it beneficial to the Company to continue to conduct such Continuing Connected Transactions in order to ensure and maximize operating efficiency and stability of the operations of the Company. The Board is not aware of any disadvantage to the Group in continuing to conduct such Continuing Connected Transactions.

2. *Continuing Connected Transactions between CNHTC (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 and CNHTC is a commercial vehicles manufacturer. Leveraging on the existing business relationship between the Group and the CNHTC Group, the Board considers that such Continuing Connected Transactions will allow the Group to maintain a strong strategic and business relationship with the CNHTC Group, thereby generating synergy potential and mutual economic benefits between the Group and the CNHTC Group.

In respect of the Continuing Connected Transactions between the Group and the CNHTC Group, the Board is of the view that the purchase of vehicles, vehicle parts and components and related products, engines, engine parts and components and related products and relevant services from the CNHTC Group will enable the Group to secure a stable and reliable supply of quality products and services from the CNHTC Group which will, in turn, further support the increase of the overall sale volumes of the products of the Group. The sale of vehicles, vehicle parts and components and related products, engines, engine parts and components and related products and relevant services to the CNHTC Group will also provide a secure source of revenue for the Group and contribute to the implementation of the Group's sales plan.

3. Continuing Connected Transactions between Weichai Combustion and the Group

In respect of the Continuing Connected Transaction between the Group and Weichai Combustion, the Board is of the view that the purchase of gas engines, gas engine parts and receipt of labour services and related products and services from Weichai Combustion, 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 Combustion, thereby generating synergy potential and mutual economic benefits between the Group and Weichai Combustion. The Board considers that the revision of annual caps for such Continuing Connected Transaction pursuant to the Supplemental Agreement will continue to provide the Group with a stable and reliable supply of quality gas engines from Weichai Combustion instead of sourcing from other market suppliers, which, is expected to maintain a stable production of the Group's products and, in turn, contribute to the Group's generation of income.

The Directors (including the independent non-executive Directors having considered the advice of the Independent Financial Adviser in respect of the Non-exempt Continuing Connected Transactions) have confirmed that all the Continuing Connected Transactions have been subject to arm's length negotiation between the Group and the relevant parties, and have been entered into by the Group in the ordinary and usual course of business and either (i) on normal commercial terms or better, or (ii) on terms no less favourable to the Group than those available to or from (as appropriate) independent third parties. Accordingly, the Directors (including the independent non-executive Directors having considered the advice of the Independent Financial Adviser in respect of the Non-exempt Continuing Connected Transactions) are of the view that all the Continuing Connected Transactions, and the relevant proposed Revised Caps and 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 for and benefits of the Continuing Connected Transactions, we consider that the Supplemental Agreements and the New Framework Agreements in respect of the Non-exempt Continuing Connected Transactions are entered into in the ordinary and usual course of business of the Company, on normal commercial terms or better, 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 and to obtain a secure source of revenue and potential synergistic benefits to be beneficial to the Company and the Independent Shareholders as a whole.

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 Revised Caps and New Caps are on normal commercial terms or better, in the ordinary and usual course of business of the Company, 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 resolution(s) to approve the Supplemental Agreements and New Framework Agreements in respect of the Non-exempt Continuing Connected Transactions and the relevant Revised Caps and New Caps at the EGM.

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

Joanne Pong
Responsible Officer