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**WEICHAI**

**潍柴动力股份有限公司**

**WEICHAI POWER CO., LTD.**

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

**(Stock Code: 2338)**

## **ANNOUNCEMENT**

### **MAJOR AND CONTINUING CONNECTED TRANSACTIONS**

#### **NEW FINANCIAL SERVICES AGREEMENT**

Reference is made to the announcement of the Company dated 30 June 2012 in relation to the continuing connected transactions between the Company and Shandong Finance. As disclosed in such announcement, pursuant to the Existing Financial Services Agreement, Shandong Finance has agreed to provide, inter alia, certain deposit services to the Company in accordance with the terms and conditions set out in the Existing Financial Services Agreement. Shandong Finance is a non-banking financial institution with the approval of the CBRC.

As the Existing Financial Services Agreement will expire after 29 June 2013 and the Company intends to continue carrying out the relevant transactions under the Existing Financial Services Agreement, the Board announces that on 21 March 2013, the Group has entered into the New Financial Services Agreement as more particularly described in this announcement. The New Financial Services Agreement has a term of three years commencing from 30 June 2013 and ending on 29 June 2016.

#### **THE LISTING RULES IMPLICATIONS**

Shandong Heavy Industry is a substantial shareholder of the Company indirectly holding approximately 16.83% of the issued share capital of the Company. As Shandong Heavy Industry holds 35% equity interest in Shandong Finance, Shandong Finance is an associate of Shandong Heavy Industry and therefore a connected person of the Company under the Listing Rules. Accordingly, the New Financial Services Agreement and the transactions contemplated thereunder constitute continuing connected transactions of the Company under Chapter 14A of the Listing Rules.

As one of the applicable percentage ratios calculated in accordance with the Listing Rules for the deposit services under the New Financial Services Agreement exceeds 25% but all of which are less than 100%, the provision of the deposit services by Shandong Finance to the Group constitutes a major transaction of the Company and is subject to the reporting, announcement and shareholders' approval requirements under Chapter 14 of the Listing Rules.

Further, as all of the applicable percentage ratios calculated in accordance with the Listing Rules for the deposit services under the New Financial Services Agreement for the three years ending 29 June 2016 exceed the 5% Threshold, the provision of the deposit services by Shandong Finance to the Group and the proposed New Caps for the relevant periods will be subject to the reporting requirements set out in Rules 14A.45 and 14A.46, the annual review requirements of Rules 14A.37 and 14A.38 of the Listing Rules, and the independent shareholders' approval requirements of Chapter 14A of the Listing Rules.

A circular containing, inter alia, (i) further details of the deposit services under the New Financial Services Agreement; (ii) a letter from the Independent Board Committee to the Independent Shareholders in relation to the terms of the deposit services under the New Financial Services Agreement; (iii) a letter of advice from the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders in relation to the terms of the deposit services under the New Financial Services Agreement; and (iv) a notice convening the general meeting of the Company, will be despatched to the Shareholders on or before 16 April 2013.

## **I. INTRODUCTION**

Reference is made to the announcement of the Company dated 30 June 2012 in relation to the continuing connected transactions between the Company and Shandong Finance. As disclosed in such announcement, pursuant to the Existing Financial Services Agreement, Shandong Finance has agreed to provide, inter alia, certain deposit services to the Company in accordance with the terms and conditions set out in the Existing Financial Services Agreement. Shandong Finance is a non-banking financial institution with the approval of the CBRC.

As the Existing Financial Services Agreement will expire after 29 June 2013 and the Company intends to continue carrying out the relevant transactions under the Existing Financial Services Agreement, the Board announces that on 21 March 2013, the Group has entered into the New Financial Services Agreement as more particularly described in this announcement. The New Financial Services Agreement has a term of three years commencing from 30 June 2013 and ending on 29 June 2016.

The Group utilises the services of Shandong Finance on a voluntary, non-exclusive basis and is not under any obligations to engage Shandong Finance for any particular service. Shandong Finance is merely one of a number of financial institutions providing financial services to the Group.

## II. NEW FINANCIAL SERVICES AGREEMENT

Date: 21 March 2013

Parties: (1) the Company; and  
(2) Shandong Finance

The transactions under the New Financial Services Agreement are non-exclusive and the Group has the right to decide whether it requires and accepts the financial services to be provided by Shandong Finance, and to choose the financial institution at its discretion to engage the financial services, with reference to its own business needs.

### Effective date and term

The New Financial Services Agreement shall become effective on the execution date of the New Financial Services Agreement and has a term of three years ending 29 June 2016, subject to the approval at a Shareholders' meeting of the transactions contemplated under the New Financial Agreement and the New Caps. The term of the New Financial Agreement can be extended on a mutually agreed basis.

### Deposit services

Shandong Finance shall provide certain deposit services to the Group, the principal terms of which are as follows:

- (a) the interest rate for the deposit of the Group's funds with Shandong Finance shall, subject to the compliance of the relevant requirements of the People's Bank of China, be no less than the highest interest rate for the same type of deposit offered by the major commercial banks in the PRC for the same period; and
- (b) the maximum daily balance (including interests) of the Group's deposit with Shandong Finance shall not exceed the following caps for each of the three years ending 29 June 2016:

	<b>From 30 June 2013 to 29 June 2014 (RMB billion)</b>	<b>From 30 June 2014 to 29 June 2015 (RMB billion)</b>	<b>From 30 June 2015 to 29 June 2016 (RMB billion)</b>
New Caps	9	10.8	13

## **Other terms of the Financial Services Agreement**

In addition to the abovementioned deposit services, Shandong Finance has also agreed to provide the following financial services to the Group:

### *(1) Loan services*

Shandong Finance shall provide certain loan services to the Group under the New Financial Services Agreement. As the said loan services to be provided by Shandong Finance to the Group are on normal commercial terms similar to or more favourable than those offered by other financial institutions for the provision of comparable services in the PRC and are for the benefit of the Group, and no security over the assets of the Group is granted in respect of such loan services, the loan service to be provided by Shandong Finance to the Company under the New Financial Services Agreement are exempt from all reporting, announcement and independent shareholders' approval requirements under Rule 14A.65(4) of the Listing Rules.

For completeness, the major terms of the said loan services to be provided by Shandong Finance to the Group are set out below for the shareholders' information:

- (a) the loan services to be provided by Shandong Finance include the provision of loans, discounted notes and bill acceptance services and the grant of credit facilities within the scope allowed by the laws, regulations and policies of the PRC and in accordance with the requirements of the CBRC;
- (b) the interest rate for the loan services to be provided by Shandong Finance to the Group shall, subject to the compliance of the relevant requirements of the People's Bank of China in relation to the interest of loans, not exceed the lowest interest rate for the same type and class of loan provided by other financial institutions in the PRC to the Group for the same period;
- (c) the Group shall not be required to provide any security over its assets for the loan services; and
- (d) Shandong Finance shall provide a credit facility in respect of the loan services of up to RMB10 billion to the Group and the interest that shall accrue thereunder shall not exceed RMB0.6 billion.

### *(2) Miscellaneous financial services*

Shandong Finance shall also provide certain other miscellaneous financial services to the Group under the New Financial Services Agreement. In respect of the provision of such financial services by Shandong Finance to the Group, as the Group expects that all the percentage ratios (if applicable) of the relevant annual fees payable by the Group to Shandong Finance in aggregate will be below 0.1%, the provision of such financial services by Shandong Finance to the Group will be exempt from the reporting, announcement and independent shareholders' approval requirements under the Listing Rules according to Rule 14A.33.

For completeness, the major terms of the provision of such financial services by Shandong Finance to the Group are set out below for shareholders' information:

- (a) the miscellaneous financial services include settlement services to be provided by Shandong Finance to the Group, pursuant to which Shandong Finance will provide payment and receipt services as well as other ancillary services related to such settlement services and other financial services within the business scope of Shandong Finance; and
- (b) the fees to be charged by Shandong Finance for (i) the provision of the settlement services shall not exceed the lowest rate for the same type of services provided by other financial institutions in the PRC to the Group in the same period; and (ii) the other financial services shall not exceed the fair market price or the standard rates imposed according to the PRC regulations.

### III. EXISTING ANNUAL CAP AND HISTORICAL AMOUNT OF DEPOSIT

Pursuant to the terms of the Existing Financial Services Agreement, the existing annual cap, i.e. the maximum daily balance (including interests) of the Company's deposit with Shandong Finance shall be RMB1,140 million.

The maximum daily balance (including interests) of the Company's deposit with Shandong Finance during the eight months ended 28 February 2013 was approximately RMB1,139.97 million.

### IV. PROPOSED ANNUAL CAPS AND REASONS

#### Deposit services

The Board, having considered (i) the historical cash position of the Group; (ii) the expected growth of the business operations of the Group and (iii) the expected amount of interest income from Shandong Finance, proposed that the maximum daily deposit balance (including interests) of the aggregated deposits placed by the Group with Shandong Finance pursuant to the New Financial Services Agreement shall not exceed the following caps for each of the three years ending 29 June 2016 (the "New Cap(s)"):

	<b>From 30 June 2013 to 29 June 2014 (RMB billion)</b>	<b>From 30 June 2014 to 29 June 2015 (RMB billion)</b>	<b>From 30 June 2015 to 29 June 2016 (RMB billion)</b>
New Caps	9	10.8	13

The Directors (excluding the independent non-executive Directors who will form their view after reviewing the advice of the Independent Financial Adviser) consider that the above New Caps in respect of the deposit services are fair and reasonable.

## **Loan services and miscellaneous financial services**

As disclosed above, the provision of loan services and miscellaneous financial services by Shandong Finance to the Company pursuant to the New Financial Services Agreement are exempt from the reporting, announcement and independent shareholders' requirements under Rule 14A.65(4) and Rule 14A.33 of the Listing Rules, respectively. As such, no annual cap is required to be set in such regard.

## **V. INTERNAL CONTROL PROCEDURES**

To secure the shareholders' interests, Shandong Finance has given certain undertakings under the New Financial Services Agreement and the Company has adopted certain internal control procedures, pursuant to which:

1. Shandong Finance shall ensure that it is in strict compliance with the requirements of the relevant PRC financial laws and regulations;
2. the monthly report or financial statements of Shandong Finance for each month will be provided to the Group;
3. the Company shall regularly review and obtain the relevant documents such as account books, financial statements and audit reports of Shandong Finance in order to assess the business of Shandong Finance and its financial risk and position; and
4. the Company shall be notified immediately on the occurrence of circumstances that may cause harm to the security of the Group's deposits or on the occurrence of any other circumstances that may jeopardise the security of the Group's deposits. In the event that the relevant risks cannot be eliminated, the Company shall take relevant actions to withdraw all deposits.

The Board considers that the above undertakings given by Shandong Finance and internal control procedures adopted by the Company in respect of the transactions under the New Financial Services Agreement are appropriate and that they will give sufficient assurance to the shareholders that the transactions under the New Financial Services Agreement will be appropriately monitored by the Company.

## **VI. REASONS FOR AND BENEFITS OF THE NEW FINANCIAL SERVICES AGREEMENT**

The reasons for the Company to enter into the New Financial Services Agreement with Shandong Finance are as follows:

1. the interest rates offered by the Shandong Finance for the deposit services, and the rates and fees charged by Shandong Finance for the loan services and miscellaneous financial services to be provided to the Company shall be equal to or more favourable than those offered or charged by major commercial banks and other financial institutions in the PRC for the same type of financial services provided to the Company;

2. the activities of Shandong Finance are regulated by the CBRC and Shandong Finance provides services within its approved scope in accordance with its operational requirement; and
3. the Company directly holds 20% equity interest of Shandong Finance, which allows it to benefit from the profits of Shandong Finance.

The transactions under the New Financial Services Agreement shall facilitate the Group to increase the efficiency of fund utilisation, and reduce the cost of financing. It will not be detrimental to the interests of the Company and will not affect the independency of the Company.

The Directors (excluding the independent non-executive Directors in respect of the provision of the deposit services under the New Financial Services Agreement who will form their view after reviewing the advice of the Independent Financial Adviser) consider that the New Financial Services Agreement has been negotiated on arm's length basis and is on normal commercial terms. The terms of the New Financial Services Agreement, the transactions contemplated thereunder, the New Caps in respect of the deposit services and the estimated fees payable for the related financial services are fair and reasonable and are in the interests of the Company and the shareholders as a whole.

The Company approved the New Financial Services Agreement and the transactions contemplated thereunder in the Board meeting held on 21 March 2013. At the aforesaid Board meeting, Mr. Tan Xuguang, Mr. Jiang Kui and Mr. Liu Huisheng have abstained from voting in respect of the resolutions approving such transactions in view of their respective interest and/or position (as the case may be) in Shandong Heavy Industry. Save as disclosed above, none of the Directors has a material interest in such transactions and is required to abstain from voting.

## **VII. LISTING RULES IMPLICATIONS**

Shandong Heavy Industry is a substantial shareholder of the Company holding approximately 16.83% of the issued share capital of the Company. As Shandong Heavy Industry holds 35% equity interest in Shandong Finance, Shandong Finance is an associate of Shandong Heavy Industry and therefore a connected person of the Company under the Listing Rules. Accordingly, the New Financial Services Agreement and the transactions contemplated thereunder constitute continuing connected transactions of the Company under Chapter 14A of the Listing Rules.

As one of the applicable percentage ratios calculated in accordance with the Listing Rules for the deposit services under the New Financial Services Agreement exceeds 25% but all of which are less than 100%, the provision of the deposit services by Shandong Finance to the Group constitutes a major transaction of the Company and is subject to the reporting, announcement and Shareholders' approval requirements under Chapter 14 of the Listing Rules.



Further, as all of the applicable percentage ratios calculated in accordance with the Listing Rules for the deposit services under the New Financial Services Agreement for the three years ending 29 June 2016 exceed the 5% Threshold, the provision of the deposit services by Shandong Finance to the Group and the proposed New Caps for the relevant periods will be subject to the reporting requirements set out in Rules 14A.45 and 14A.46, the annual review requirements of Rules 14A.37 and 14A.38 of the Listing Rules, and the Independent Shareholders' approval requirements of Chapter 14A of the Listing Rules.

## **VIII. INFORMATION ON THE PARTIES**

### **The Company**

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

### **Shandong Finance**

The business scope of Shandong Finance includes the following businesses in domestic and foreign currencies: (1) provision of finance services and financing consultancy services to its member companies, provision of credit verification and related consultancy and agency services to its member companies; (2) provision of assistance to its member companies in payment and receipt of transaction proceeds; (3) provision of approved insurance agency services; (4) provision of guarantees to its member companies; (5) dealing with entrusted loans among its member companies; (6) provision of bill acceptance and discounting services to its member companies; (7) provision of intra-group transfer and settlement services to its member companies and planning of clearing and settlement scheme; (8) provision of its deposit services to its member companies; (9) provision of loans and finance leasing services to member companies; and (10) provision of interbank loans.

## **IX. INDEPENDENT BOARD COMMITTEE AND INDEPENDENT FINANCIAL ADVISOR**

An Independent Board Committee comprising the independent non-executive Directors (namely, Mr. Liu Zheng, Mr. Li Shihao, Mr. Loh Yih, Mr. Chu, Howard Ho Hwa, Mr. Zhang Zhenhua and Mr. Li Luwen) will be appointed to consider the terms of the deposit services under the New Financial Services Agreement and the relevant proposed New Caps.

An Independent Financial Adviser will be appointed to advise the Independent Board Committee and the Independent Shareholders on the fairness and reasonableness of the terms of the deposit services under the New Financial Services Agreement and the relevant proposed New Caps.



## **X. DESPATCH OF CIRCULAR**

A general meeting will be convened for the purpose of, amongst other things, considering, and if thought fit, approving the New Financial Services Agreement and the transactions contemplated thereunder. A circular containing, inter alia, (i) further details of the deposit services under the New Financial Services Agreement; (ii) a letter from the Independent Board Committee to the Independent Shareholders in relation to the terms of the deposit services under the New Financial Services Agreement; (iii) a letter of advice from the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders in relation to the terms of the deposit services under the New Financial Services Agreement; and (iv) a notice convening the general meeting of the Company, will be despatched to the Shareholders on or before 16 April 2013.

## **XI. DEFINITIONS**

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

“5% Threshold”	the thresholds referred to in Rule 14A.34 of the Hong Kong Listing Rules;
“associate”	has the meaning ascribed thereto under the Listing Rules;
“Board”	the board of Directors;
“CBRC”	China Banking Regulatory Commission;
“Company”	潍柴动力股份有限公司 (Weichai Power Co., Ltd.), a company established in the PRC with limited liability;
“connected person(s)”	has the meaning ascribed thereto under the Listing Rules;
“Director(s)”	the director(s) of the Company;
“Existing Financial Services Agreement”	the financial services agreement entered into between the Company and Shandong Finance on 30 June 2012;
“Group”	the Company and its subsidiaries;
“Independent Board Committee”	a committee of the Board comprising Mr. Liu Zheng, Mr. Li Shihao, Mr. Loh Yih, Mr. Chu, Howard Ho Hwa, Mr. Zhang Zhenhua and Mr. Li Luwen, being the independent non-executive Directors;

“Independent Financial Adviser”	the independent financial adviser appointed by the Company to advise the Independent Board Committee and the Independent Shareholders in respect of the provision of the deposit services by Shandong Finance to the Group and the proposed New Caps for the relevant periods;
“Independent Shareholders”	Shareholders who are not required to abstain from voting at the relevant general meeting of the Company held to consider, and if thought fit, approve the provision of the deposit services under the New Financial Services Agreement and the proposed New Caps;
“Listing Rules”	the Rules Governing the Listing of Securities on the Hong Kong Stock Exchange;
“New Cap(s)”	has the meaning as ascribed to it under the section headed “IV. Proposed cap and reasons – Deposit services” of this announcement;
“New Financial Services Agreement”	the financial services agreement entered into between the Company and Shandong Finance on 21 March 2013;
“PRC”	the People’s Republic of China;
“RMB”	Renminbi, the lawful currency of the PRC;
“Shandong Finance”	山東重工集團財務有限公司 (Shandong Heavy Industry Group Finance Co., Ltd.*), a company established in the PRC with limited liability which is owned as to 35%, 20%, 20%, 20% and 5% by Shandong Heavy Industry, the Company, 濰柴重機股份有限公司 (Weichai Heavy-duty Machinery Co., Ltd.*), 山推工程機械股份有限公司 (Shantui Engineering Machinery Co., Ltd.*) and 中國金谷國際信託有限責任公司 (China Jingu International Trust Co., Ltd*), respectively;

“Shandong Heavy Industry”	山東重工集團有限公司 (Shandong Heavy Industry Group Co., Ltd.*), a substantial shareholder and connected person of the Company, the entire capital of which is held by the State-owned Assets Supervision and Administration Commission of Shandong Province;
“Shareholders”	holders of the shares of RMB1.00 each in the capital of the Company;
“Stock Exchange”	The Stock Exchange of Hong Kong Limited; and
“%”	per cent.

\* For identification purposes only

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

Hong Kong, 21 March 2013

*As at the date of this announcement, the executive Directors of the Company are Mr. Tan Xuguang, Mr. Xu Xinyu, Mr. Sun Shaojun, Mr. Zhang Quan, Mr. Li Dakai and Mr. Fang Hongwei; the non-executive Directors of the Company are Mr. Jiang Kui, Mr. Liu Huisheng, Mr. Yeung Sai Hong, Mr. Chen Xuejian, Mr. Julius G. Kiss and Ms. Han Xiaoqun; and the independent non-executive Directors of the Company are Mr. Liu Zheng, Mr. Li Shihao, Mr. Loh Yih, Mr. Chu, Howard Ho Hwa, Mr. Zhang Zhenhua and Mr. Li Luwen.*