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潍柴動力股份有限公司
WEICHAI POWER CO., LTD.

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

(Stock Code: 2338)

ANNOUNCEMENT
CONTINUING CONNECTED TRANSACTION

SUMMARY

Reference is made to the announcement of the Company dated 27 August 2020 in respect of, *inter alia*, the Continuing Connected Transaction between the Group and the Weichai Heavy Machinery Group.

The Board announces that on 27 January 2022, the Group has entered into the New Weichai Heavy Machinery Purchase and Services Agreement in respect of the Continuing Connected Transaction as more particularly described herein.

As the highest percentage ratio calculated in accordance with the Listing Rules for the Continuing Connected Transaction as set out in section II. of this announcement exceeds the 0.1% Threshold but does not exceed the 5% Threshold, such Continuing Connected Transaction is subject to the reporting, announcement and annual review requirements of Chapter 14A of the Listing Rules but is exempt from the independent shareholders' approval under the Listing Rules.

I. INTRODUCTION

Reference is made to the announcement of the Company dated 27 August 2020, in respect of, *inter alia*, the Continuing Connected Transaction between the Group and the Weichai Heavy Machinery Group where the Existing Caps for such Continuing Connected Transaction were set.

For such Continuing Connected Transaction, the Company proposes to revise the Existing Caps and obtain New Caps for the three years ending 31 December 2024. For such purposes, the Group entered into the New Weichai Heavy Machinery Purchase and Services Agreement.

A summary of the Continuing Connected Transaction, the New Weichai Heavy Machinery Purchase and Services Agreement, the Existing Caps, the actual transaction amounts of the Continuing Connected Transaction for the relevant periods and the New Caps (and their basis) is set out in the section headed “II. Continuing Connected Transaction” of this announcement.

II. CONTINUING CONNECTED TRANSACTION

Summary of the Continuing Connected Transaction and the New Caps

Name of connected person	Name of Group Company	Connected person's relationship with the Group	Nature of the connected transaction with the Group
Weichai Heavy Machinery (and its subsidiaries)	The Company (for itself and on behalf of its subsidiaries)	Weichai Heavy Machinery is held as to approximately 30.59% by Weichai Holdings	Purchase of diesel engines and related products and raw materials, and related labour and technical services by the Company (and its subsidiaries) from Weichai Heavy Machinery (and its subsidiaries)

A summary of the New Caps for the Continuing Connected Transaction is set out below:

Details of the Continuing Connected Transaction	New Caps		
	For the	For the	For the
	year ending	year ending	year ending
	31 December	31 December	31 December
	2022	2023	2024
	RMB	RMB	RMB

Weichai Heavy Machinery (and its subsidiaries)

Purchase of diesel engines and related products and raw materials, and related labour and technical services by the Company (and its subsidiaries) from Weichai Heavy Machinery (and its subsidiaries)	1,320,000,000*	1,500,000,000*	1,750,000,000*
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Note:

- Where a New Cap is marked “*” that means the New Caps for the relevant Continuing Connected Transaction do not exceed the 5% Threshold and are exempt from the approval by the independent shareholders under the Listing Rules.

Details of the Continuing Connected Transaction and the New Weichai Heavy Machinery Purchase and Services Agreement

Continuing Connected Transaction between Weichai Heavy Machinery (and its subsidiaries) and the Group

The Company and its subsidiaries

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

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 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.

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

Agreement:	New Weichai Heavy Machinery Purchase and Services Agreement
Date:	27 January 2022
Parties:	1. The Company 2. Weichai Heavy Machinery
Term:	1 January 2022 to 31 December 2024

Due to the operational needs of the Group, the Company expects that the Existing Caps for the two years ending 31 December 2023 for the Existing Weichai Heavy Machinery Purchase and Services Agreement will be insufficient. The Company therefore entered into the New Weichai Heavy Machinery Purchase and Services Agreement, whose terms are substantially the same as those of the Existing Weichai Heavy Machinery Purchase and Services Agreement, to revise the Existing Caps and obtain New Caps for the three years ending 31 December 2024.

Pursuant to the New Weichai Heavy Machinery Purchase and Services 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 related labour and technical services from Weichai Heavy Machinery and/or its subsidiaries (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 2024, 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 price of the said products shall be determined according to the following mechanism: the marketing department of the Company regularly conducts market research and analysis regarding specific products, in which a number of factors, including the overall market prices, market shares, ordering situation and performance of major competitors of such products, are comprehensively considered, submits a price suggestion after its analysis to the Company's price management department and the final prices are determined at arm's length negotiation among the parties. The price management department of the Company regularly reviews the reasonableness of prices and makes amendments when necessary. The Directors are of the view that the abovementioned methods and procedures under the pricing policies can ensure that this Continuing Connected Transaction is conducted on normal commercial terms and not prejudicial to the interests of the Company and its minority Shareholders.

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

	2021	2022	2023
	<i>RMB</i>	<i>RMB</i>	<i>RMB</i>
Existing Caps	640,000,000	695,000,000	760,000,000

The table below summarises the actual transaction amounts involved for the purchases and services for the two years ended 31 December 2020 (audited) and the year ended 31 December 2021 (unaudited) for the Continuing Connected Transaction set out in this section II.:

	For the year ended 31 December 2019 RMB (audited)	For the year ended 31 December 2020 RMB (audited)	For the year ended 31 December 2021 RMB (unaudited)
Actual transaction amount	412,470,453	462,919,000	410,969,107

Reference is made to the Company's announcement dated 29 October 2021 in respect of the Company's acquisition of Weichai Import and Export. Following completion of the acquisition of Weichai Import and Export in November 2021, the purchase of products including engines and repair and related services by Weichai Import and Export from the Weichai Heavy Machinery Group has constituted continuing connected transactions of the Company under Chapter 14A of the Listing Rules.

The table below summarises the actual transaction amounts involved for the three years ended 31 December 2021 (unaudited) in respect of Weichai Import and Export's purchase of relevant products and services from the Weichai Heavy Machinery Group:

	For the year ended 31 December 2019 RMB (unaudited)	For the year ended 31 December 2020 RMB (unaudited)	For the year ended 31 December 2021 RMB (unaudited)
Actual transaction amount	327,779,316	305,555,028	338,030,598

Since the Group intends to continue the transactions between Weichai Import and Export and the Weichai Heavy Machinery Group, the Company expects that the Existing Caps for the two years ending 31 December 2023 for the Existing Weichai Heavy Machinery Purchase and Services Agreement will be insufficient.

In light of the above, the Company estimates that the aggregate transaction amounts in respect of the Continuing Connected Transaction set out in this section II. will not exceed RMB1,320 million, RMB1,500 million and RMB1,750 million for each of the three years ending 31 December 2024 and therefore such amount has accordingly been set as the New Caps for this Continuing Connected Transaction.

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 in view of the implementation of the Group's procurement plan for the years 2022 to 2024 which involves, in particular, an expected substantial growth in the operations of Weichai Import and Export following the Company's acquisition of Weichai Import and Export in November 2021, 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 and on the basis of all the aforesaid factors, it is estimated that the overall transaction amount of the said purchase of products and services will increase substantially by approximately 0.8 times for the year ending 31 December 2022 as compared with the actual transaction amount in 2021, and further by approximately 13.6% and 16.7%, for each of the years ending 31 December 2023 and 31 December 2024, respectively.

The table below summarises the New Caps for the Continuing Connected Transaction set out in this section II. for the three years ending 31 December 2024:

	2022	2023	2024
	<i>RMB</i>	<i>RMB</i>	<i>RMB</i>
New Cap	1,320,000,000	1,500,000,000	1,750,000,000

As the highest percentage ratio calculated in accordance with the Listing Rules for the Continuing Connected Transaction as set out in this section II. exceeds the 0.1% Threshold but does not exceed the 5% Threshold, such Continuing Connected Transaction is subject to the reporting, announcement and annual review requirements of Chapter 14A of the Listing Rules but is exempt from the independent shareholders' approval under the Listing Rules.

III. REASONS FOR THE CONTINUING CONNECTED TRANSACTION AND LISTING RULES IMPLICATIONS

Prior to the incorporation of the Company and the listing of the Shares on the Stock Exchange, the Company has had business relationships with certain entities. Under the Listing Rules, such entities have become connected persons of the Company since the listing of the Company and the transactions between the Company and such entities constitute continuing connected transactions of the Company. In respect of the continuing connected transactions between the Company and Weichai Holdings, since their production facilities are located in close proximity to each other and in view of the PRC government's policy not to duplicate construction of production and other facilities, certain continuing connected transactions have been continuing since the listing of the Company on the Stock Exchange. After the completion of the Weichai Holdings Juli Restructuring in 2007, certain of these continuing connected transactions with Weichai Holdings were transferred to Weichai Heavy Machinery.

As the Company has conducted the Continuing Connected Transaction 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 Directors (including the independent non-executive Directors) consider it beneficial to the Company to continue to conduct the Continuing Connected Transaction in order to ensure and maximize operating efficiency and stability of the operations of the Company. The Directors (including the independent non-executive Directors) are not aware of any disadvantage to the Group in continuing to conduct the Continuing Connected Transaction.

The Directors (including the independent non-executive Directors) have confirmed that the Continuing Connected Transaction has been subject to arm's length negotiation between the Company and Weichai Heavy Machinery, and has been entered into by the Group in the ordinary and usual course of business and the New Weichai Heavy Machinery Purchase and Services Agreement is 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, and the Continuing Connected Transaction and the relevant New Caps are fair and reasonable and in the interests of the Company and the Shareholders as a whole.

At the meeting of the Board on 27 January 2022 approving, inter alia, the Continuing Connected Transaction, Tan Xuguang, Zhang Liangfu, Jiang Kui, Zhang Quan, Xu Xinyu and Sun Shaojun have abstained from voting on the resolutions in respect of the Continuing Connected Transaction for the reasons of their respective interest and/or position (as the case may be) in the relevant connected person(s).

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

As the highest percentage ratio calculated in accordance with the Listing Rules for the Continuing Connected Transaction as set out in section II. of this announcement exceeds the 0.1% Threshold but does not exceed the 5% Threshold, such Continuing Connected Transaction is subject to the reporting, announcement and annual review requirements of Chapter 14A of the Listing Rules but is exempt from the independent shareholders' approval under the Listing Rules.

IV. DEFINITIONS

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

“0.1% Threshold”	the thresholds referred to in Rule 14A.76(1)(a) of the Listing Rules
“5% Threshold”	the thresholds referred to in Rule 14A.76(2)(a) of the Listing Rules
“associate(s)”	has the meaning ascribed thereto under the Listing Rules
“Board”	the board of Directors
“China” or “PRC”	the People’s Republic of China
“Company”	濰柴動力股份有限公司 (Weichai Power Co., Ltd.), a company established in the PRC with limited liability
“connected person”	has the meaning ascribed thereto under the Listing Rules
“Continuing Connected Transaction(s)”	the transaction(s) between the Group and the Weichai Heavy Machinery Group as set out in the section headed “II. Continuing Connected Transaction” in this announcement
“Director(s)”	the director(s) of the Company
“Existing Cap(s)”	the existing cap(s) for the Continuing Connected Transaction set out in the section headed “II. Continuing Connected Transaction” in this announcement
“Existing Weichai Heavy Machinery Purchase and Services Agreement”	the agreement between the Company and Weichai Heavy Machinery (as supplemented by the relevant supplemental agreements dated 23 August 2010, 29 August 2013, 30 August 2016, 13 July 2018 and 27 August 2020), details of which are disclosed in section II. of the announcement of the Company dated 27 August 2020

“Group”	the Company and its subsidiaries, and “Group Company” means any of the same
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange
“New Cap(s)”	the annual cap(s) to the Continuing Connected Transaction as set out in the section headed “II. Continuing Connected Transaction” in this announcement
“New Weichai Heavy Machinery Purchase and Services Agreement”	the agreement entered into between the Company and Weichai Heavy Machinery on 27 January 2022 as more particularly set out in section II. of this announcement
“RMB”	Renminbi, the lawful currency of the PRC
“Shandong Heavy Industry”	山東重工集團有限公司 (Shandong Heavy Industry Group Co., Ltd.), a substantial shareholder and connected person of the Company holding the entire capital of Weichai Holdings
“Shareholder(s)”	holder(s) of the shares in the Company
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Weichai Heavy Machinery”	濰柴重機股份有限公司 (Weichai Heavy-duty Machinery Co., Ltd.*) (formerly known as 山東巨力股份有限公司 (Shandong Juli Company Limited*)), a company established in the PRC and a connected person of the Company
“Weichai Heavy Machinery Group”	Weichai Heavy Machinery and its subsidiaries
“Weichai Holdings”	濰柴控股集團有限公司 (Weichai Group Holdings Limited*) (formerly known as 濰坊柴油機廠 (Weifang Diesel Engine Works*)), a legal person established in the PRC, a substantial shareholder of the Company and a connected person of the Company
“Weichai Holdings Juli Restructuring”	the restructuring of the assets of Weichai Holdings and the group of entities concerning Weichai Heavy Machinery as more particularly set out in the announcement of Weichai Heavy Machinery on the Shenzhen Stock Exchange dated 8 September 2006

“Weichai Import and Export”

山東濰柴進出口有限公司 (Shandong Weichai Import and Export Co., Ltd.*), a company established in the PRC and a subsidiary of the Company

“%”

per cent.

* For identification purposes only

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

The PRC, 27 January 2022

As at the date of this announcement, the executive Directors of the Company are Mr. Tan Xuguang, Mr. Zhang Quan, Mr. Xu Xinyu, Mr. Sun Shaojun, Mr. Yuan Hongming and Mr. Yan Jianbo; the non-executive Directors of the Company are Mr. Zhang Liangfu, Mr. Jiang Kui, Mr. Gordon Riske and Mr. Michael Martin Macht; and the independent non-executive Directors of the Company are Mr. Li Hongwu, Mr. Wen Daocai, Ms. Jiang Yan, Mr. Yu Zhuoping and Ms. Zhao Huifang.