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If you have sold or transferred all your overseas listed foreign shares ("H Shares") in Weichai Power Co., Ltd., you should at once hand this circular to the purchaser or transferee or to the bank, stockbroker or other agent through whom the sale or transfer was effected for transmission to the purchaser or transferee.

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WEICHAI
潍柴
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)

**(1) DISCLOSEABLE AND CONNECTED TRANSACTION –
ACQUISITION OF APPROXIMATELY 22.69% SHARES IN WEICHAI LOVOL
AND
(2) NOTICE OF EXTRAORDINARY GENERAL MEETING**

**Independent financial adviser to the independent board committee and
the independent shareholders of Weichai Power Co., Ltd. on the Acquisition**

TRINITY
Trinity Corporate Finance Limited

A letter from the Board is set out on pages 5 to 17 of this circular.

A letter from the independent financial adviser to the independent board committee and the independent shareholders of Weichai Power Co., Ltd. on the Acquisition (as defined in this circular) is set out on pages 19 to 37 of this circular.

A notice convening the EGM to be held at the Company's conference room at 197, Section A, Fu Shou East Street, High Technology Industrial Development Zone, Weifang, Shandong Province, the PRC on 31 May 2022 at 2:50 p.m. is set out on pages 62 to 64 of this circular. Whether or not you intend to be present at the said meeting, you are requested to complete the accompanying form of proxy in accordance with the instructions printed thereon and return the same to the H-share registrar of the Company in Hong Kong, Computershare Hong Kong Investor Services Limited at 17M Floor, Hopewell Centre, 183 Queen's Road East, Wan Chai, Hong Kong (with respect to the holders of H Shares) or the registered office of the Company at 197, Section A, Fu Shou East Street, High Technology Industrial Development Zone, Weifang, Shandong Province, the PRC (postal code: 261061) (attention: the office of the Board of Directors) (with respect to the holders of A Shares), no later than 24 hours before the time fixed for holding the relevant meeting or any adjournment thereof. Completion and delivery of the form of proxy will not prevent you from attending, and voting at, the relevant meeting or any adjournment thereof if you so wish.

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DEFINITIONS

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

“A Share(s)”	the A Share(s), being ordinary share(s) issued, in the capital of the Company with a RMB denominated par value of RMB1.00 each and are listed on the Shenzhen Stock Exchange
“Acquisition”	the acquisition by the Company of the Sale Shares from Weichai Holdings in accordance with the Share Transfer Agreement
“Arbos”	阿波斯科技集團股份有限公司 (Arbos Technology (Group) Co., Ltd.*) (formerly known as “天津雷沃重工集團股份有限公司” (Tianjin Lovol Heavy Industry Co., Ltd.*)), a joint stock limited company established in the PRC
“Articles of Association”	the articles of association of the Company
“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
“Completion”	the completion of the Acquisition pursuant to the Share Transfer Agreement
“Completion Date”	has the meaning ascribed thereto under the section headed “II. Principal terms of the Share Transfer Agreement – Completion” in the letter from the Board contained in this circular
“connected person(s)”	has the meaning ascribed thereto under the Listing Rules
“Consideration”	the total consideration payable by the Company in respect of the Acquisition

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“Deloitte”	has the meaning ascribed thereto under the section headed “III. Valuation” in the letter from the Board contained in this circular
“Director(s)”	the director(s) of the Company
“EGM”	the extraordinary general meeting of the Company to be held on Tuesday, 31 May 2022, the notice of which is contained in this circular
“Forecast”	has the meaning ascribed thereto under the section headed “III. Valuation” in the letter from the Board contained in this circular
“Group”	the Company and its subsidiaries, and “Group Company” means any of the same
“H Share(s)”	the H Share(s), being the overseas listed foreign share(s) issued, in the capital of the Company with a RMB denominated par value of RMB1.00 each and are listed on the main board of the Stock Exchange
“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong
“Independent Board Committee”	a committee of the Board comprising Mr. Li Hongwu, Mr. Wen Daocai, Ms. Jiang Yan, Mr. Yu Zhuoping and Ms. Zhao Huifang, being the independent non-executive Directors
“Independent Financial Adviser”	Trinity Corporate Finance Limited, the independent financial adviser appointed by the Company to advise the Independent Board Committee and the Independent Shareholders in respect of the Acquisition
“Independent Shareholders”	Shareholders who are not required to abstain from voting at the EGM in respect of the Acquisition
“Initial Consideration”	has the meaning ascribed thereto under the section headed “II. Principal terms of the Share Transfer Agreement – Consideration” in the letter from the Board contained in this circular

DEFINITIONS

“Latest Practicable Date”	12 May 2022, being the latest practicable date prior to the printing of this circular for ascertaining certain information contained herein
“Listing Rules”	the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited
“Previous Acquisition”	the acquisition of approximately 39.31% shares in aggregate in Weichai Lovol by the Company from Arbos and 青特集團有限公司 (Qingte Group Co., Ltd.) as disclosed in the Company’s announcement dated 13 July 2021, which was completed on 14 July 2021
“RMB”	Renminbi, the lawful currency of the PRC
“Sale Shares”	274,401,120 shares of Weichai Lovol (representing approximately 22.69% of total issued shares of Weichai Lovol) which are held by Weichai Holdings immediately before completion of the Acquisition under the Share Transfer Agreement
“SFO”	Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong)
“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
“Share Transfer Agreement”	the share transfer agreement in respect to the sale by Weichai Holdings, and the purchase by the Company, of the Sale Shares
“Shareholder(s)”	holder(s) of the shares of the Company
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Transitional Period”	has the meaning ascribed thereto under the section headed “II. Principal terms of the Share Transfer Agreement – Consideration” in the letter from the Board contained in this circular
“Valuation Reference Date”	31 December 2021, being the reference date adopted by the Valuer in the valuation of Weichai Lovol in the Valuation Report

DEFINITIONS

“Valuation Report”	the valuation report dated 10 March 2022 issued by the Valuer in respect of the total appraised value of Weichai Lovol and its subsidiaries for the purpose of the Acquisition
“Valuer”	北京天健興業資產評估有限公司 (Pan-China Assets Appraisal Co., Ltd.*), an independent professional valuer in the PRC
“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 Lovol”	濰柴雷沃重工股份有限公司 (Weichai Lovol Heavy Industry Co., Ltd.*), a joint stock limited company established in the PRC and a currently subsidiary of Weichai Holdings
“%”	per cent.

* For identification purposes only

(The exchange rate used for the purpose of this circular is HK\$1= RMB0.8147.)

If there is any inconsistency between the Chinese name of the entities mentioned in this circular and their English translation, the Chinese version shall prevail.

LETTER FROM THE BOARD



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)

Executive Directors:

Tan Xuguang (Chairman and Chief Executive Officer)
Zhang Quan
Xu Xinyu
Sun Shaojun
Yuan Hongming (Executive President)
Yan Jianbo (Executive President)

Non-executive Directors:

Zhang Liangfu
Jiang Kui
Gordon Riske
Michael Martin Macht

Independent Non-executive Directors:

Li Hongwu
Wen Daocai
Jiang Yan
Yu Zhuoping
Zhao Huifang

Supervisors:

Lu Wenwu
Ma Changhai
Wu Hongwei

Registered office:

197, Section A
Fu Shou East Street
High Technology Industrial
Development Zone
Weifang
Shandong Province
The People's Republic of China

*Principal place of business
in Hong Kong:*

Rooms 3407-3408
34th Floor, Gloucester Tower
Landmark
15 Queen's Road Central
Central, Hong Kong

16 May 2022

To: Holders of H Shares
Holders of A Shares

Dear Sir or Madam,

**(1) DISCLOSEABLE AND CONNECTED TRANSACTION –
ACQUISITION OF APPROXIMATELY 22.69% SHARES IN WEICHAI LOVOL
AND
(2) NOTICE OF EXTRAORDINARY GENERAL MEETING**

I. INTRODUCTION

It was announced by the Board on 18 April 2022 that on 18 April 2022, the Company entered into, *inter alia*, the Share Transfer Agreement in respect of the Acquisition. This circular gives you further information in relation to the Acquisition and contains the advice of the

LETTER FROM THE BOARD

Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders in relation to the Acquisition. This circular also contains the notice convening the EGM.

II. PRINCIPAL TERMS OF THE SHARE TRANSFER AGREEMENT

The principal terms of the Share Transfer Agreement are as follows:

- Date:** 18 April 2022
- Parties:**
- (1) the Company, as the purchaser
 - (2) Weichai Holdings, as the seller
 - (3) Weichai Lovol, as the target company

Subject matter

The Company has conditionally agreed to purchase, and Weichai Holdings has conditionally agreed to sell, the Sale Shares, namely, 274,401,120 shares of Weichai Lovol (representing approximately 22.69% of the total issued share capital of Weichai Lovol).

Consideration

The purchase price for the Sale Shares (the “**Initial Consideration**”) is RMB1,584,461,400 (equivalent to approximately HK\$1,944,840,309), which was determined after arm’s length negotiation between the parties to the Share Transfer Agreement based on the appraised value of Weichai Lovol and its subsidiaries of RMB8,520,574,100 as at the Valuation Reference Date as set out in the Valuation Report and taking into account (i) the dividend in the amount of RMB540,000,000 resolved at the general meeting of Weichai Lovol to be distributed in cash for the year 2021, and (ii) the possible refund and/or deduction of certain value-added tax of Weichai Lovol in the amount of up to RMB998,948,500 (please refer to the sub-section headed “Special arrangement regarding refund of value-added tax” below).

The Initial Consideration is subject to the customary adjustment based on the profit/loss during the period from the Valuation Reference Date to the Completion Date (the “**Transitional Period**”) in the following manner:

- (i) if Weichai Lovol makes a profit during the Transitional Period, Weichai Lovol shall make up the profit that Weichai Holdings should enjoy during the Transitional Period according to the shareholding percentage of the Company and Weichai Holdings in Weichai Lovol before the Completion by way of dividend; and
- (ii) otherwise, Weichai Holdings shall make up the loss it should bear during the Transitional Period to the Company.

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Weichai Holdings and the Company shall jointly engage auditors to audit the profit/loss during the Transitional Period within 15 days after the Completion Date. The profit/loss in any period less than one calendar month during the Transitional Period shall be calculated by multiplying (i) the profit/loss occurred in the full month in which the Completion Date falls and (ii) the proportion of the number of days between the first day of that month and the Completion Date in the total number of days in that calendar month.

Further, if Weichai Lovol disposes of any of its assets during the Transitional Period, such disposal shall be made in accordance with the relevant appraised value of the relevant assets as set out in the Valuation Report, and adjustments to the Initial Consideration will also be made on the same basis as set out above.

The Board does not expect that the above adjustment to the Initial Consideration, if any, will result in a change in the classification of the Acquisition under Chapter 14 of the Listing Rules.

The Consideration shall be payable by the Company to the designated bank account of Weichai Holdings in cash in one lump sum within 30 working days after the Share Transfer Agreement taking effect in accordance with the relevant conditions precedent set out below.

The Consideration is expected to be funded out of the Group's financial resources.

Further information on the basis of determination of the Consideration

As disclosed above, the purchase price for the Sale Shares (subject to customary adjustment) is approximately RMB1,584 million, which is significantly higher than (i) the original cost of investment incurred by Weichai Holdings in respect of the Sale Shares (which insofar as the Company is aware, amounted to approximately RMB631 million); (ii) the net assets value of Weichai Lovol as at 31 December 2021 attributable to the Sale Shares amounting to approximately RMB523 million; and (iii) the consideration of approximately RMB985 million paid by the Company in acquiring approximately 39.31% shares in Weichai Lovol under the Previous Acquisition, for the following reasons:

1. When Weichai Holdings acquired approximately 60.00% of the shares in Weichai Lovol in January 2021, Weichai Lovol has been performing at a loss. In 2019, Weichai Lovol, on a consolidated basis, had suffered a loss of approximately RMB1,008 million and accordingly, the original cost of investment incurred by Weichai Holdings was relatively low.
2. As at 31 March 2021, being the valuation reference date for the Previous Acquisition, Weichai Lovol had not yet undergone any substantial changes in respect of its management and operation model. In 2020, Weichai Lovol was at a loss of RMB743 million. Thus, as at the valuation reference date for the Previous Acquisition, it was considered infeasible to reasonably and correctly forecast the future revenue and profits of Weichai Lovol as high uncertainty lies in the parameters for the income-based approach, and an asset-based approach was adopted as the valuation method for the Previous Acquisition. It was only since the second half of 2021, as further elaborated in the sub-section headed "Information on Weichai Lovol" below, that the performance of Weichai Lovol improved significantly.

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3. For the Acquisition, the Valuer adopted the income-based approach in determining the appraised value of Weichai Lovol and its subsidiaries. Although less than a year has elapsed between the Valuation Reference Date and the valuation reference date for the Previous Acquisition, the management and operation model of Weichai Lovol has transformed substantially due to the steering of Weichai Holdings. As advised by the Valuer, under the asset-based approach, the impact of the factors such as the comprehensive profitability of various assets, enterprise brand awareness, customer resources, sales network, human resources, research and development team, the synergy effect of the related companies could not be individually quantified, particularly in light of the substantial transformation within Weichai Lovol. However, the income-based approach could better reflect the overall value of Weichai Lovol by taking into account these factors and the influence exerted by the controlling shareholder.
4. In light of the above, the appraised value of Weichai Lovol and its subsidiaries had increased from RMB3,500 million as at 31 March 2021, i.e. the valuation reference date for the Previous Acquisition, to RMB8,500 million as at the Valuation Reference Date. The choices of asset-based approach and income-based approach each for 31 March 2021 and the Valuation Reference Date, respectively, which were based on the management model and operational conditions of Weichai Lovol at each point of time, aiming to correctly reflect the total equity of shareholders at each date, contributed to such increase in the appraised value of Weichai Lovol and its subsidiaries. The increase in the appraised value of Weichai Lovol and its subsidiaries in turn resulted in the difference between the Initial Consideration and the consideration paid by the Company in the Previous Acquisition.

In light of the above, the Board concurs with the Valuer's adoption of the income-based approach in determining the appraised value of Weichai Lovol and subsidiaries and considers that the Initial Consideration is fair and reasonable and in the interest of Company and its shareholders.

Conditions precedent to the Share Transfer Agreement taking effect

Apart from the Share Transfer Agreement being signed by the legal representative or authorised representative and affixed with seals of all parties thereto, the Share Transfer Agreement shall only become effective upon satisfaction of the following conditions precedent:

- (i) the Acquisition having been reviewed and approved by each of the parties in accordance with the requirements of the relevant laws, regulations and internal policies (including by the Independent Shareholders at the general meeting of the Company); and

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- (ii) the Acquisition having been approved by the National Anti-Monopoly Bureau* (國家反壟斷局) of the PRC.

None of the abovementioned conditions precedent are waivable. The parties shall use their reasonable endeavours to fulfill the conditions precedent as soon as possible, and as at the Latest Practicable Date, the Company had made the relevant anti-monopoly filings with the relevant authorities and was informed that such filings were no longer applicable and hence the above condition (ii) is deemed to be fulfilled, whilst the above condition (i) is yet to be satisfied.

Completion

Completion shall take place on the date (the “**Completion Date**”) on which the Company pays the Initial Consideration in full in accordance with the Share Transfer Agreement. On the Completion Date, Weichai Lovol shall register the Sale Shares under the name of the Company and provide an original copy of the updated register of members (affixed with company chop and signed by its legal representative) to the Company.

Termination

The Share Transfer Agreement shall be terminated in the following manners:

- (i) all parties to the Share Transfer Agreement agree to terminate the Share Transfer Agreement in writing and agree on the effective date of such termination;
- (ii) if the Company fails to pay the Initial Consideration in full to Weichai Holdings on time in accordance with the Share Transfer Agreement and such delay reaches 20 working days or more, Weichai Holdings may terminate the Share Transfer Agreement unilaterally; or
- (iii) if (a) the Company discovers that any of Weichai Holding’s representations and warranties under the Share Transfer Agreement is untrue, inaccurate or misleading in materials aspects, which has caused the failure of the Company to realise its intended purpose in relation to the Acquisition, or (b) Weichai Holdings fails to complete or, as the case maybe, procure that Weichai Lovol the completion procedures and/or the registration procedures in accordance with the requirements of the Share Transfer Agreement, the Company may terminate the Share Transfer Agreement by notifying Weichai Holdings in writing.

If the Share Transfer Agreement is terminated pursuant to the provisions above, the parties shall return the relevant consideration received in accordance with the principles of fairness, reasonableness and integrity, and return to the status before the Share Transfer Agreement is signed. All rights and obligations of the parties under the Share Transfer Agreement shall cease to exist, provided that the termination of the Share Transfer Agreement shall not affect the claim for compensation for breach of the Share Transfer Agreement by complying party(ies) against non-complying party(ies).

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Special arrangement regarding refund of value-added tax

As disclosed in the announcement of the Company dated 13 July 2021 in relation to, among other things, the acquisition by the Company of approximately 38.62% of the total issued share capital of Weichai Lovol from Arbos, Weichai Holdings, the Company, Arbos and Weichai Lovol made certain arrangements in respect of the possible refund and/or deduction of certain value-added tax of Weichai Lovol (up to RMB998,948,500), whereby among others, the Company has agreed to pay to Arbos 38.62% of such amount actually refunded to Weichai Lovol.

The parties to the Share Transfer Agreement also agreed that after the completion of the Acquisition, if Weichai Lovol receives any refund of the abovementioned value-added tax, the Company would pay to Weichai Holdings 22.69% of such amount actually refunded to Weichai Lovol before the Company performs its obligations pursuant to the arrangements mentioned in the paragraph above.

III. VALUATION

The appraised value of the Sale Shares of Weichai Lovol was determined by the Valuer based on the income approach. Accordingly, such valuation constitutes a profit forecast under Rule 14.61 of the Listing Rules (the “**Forecast**”).

In compliance with Rule 14A.68(7) of the Listing Rules, the principal assumptions upon which the Forecast was based are set out as follows:

General assumptions

1. Assumption of trading: it is assumed that all the assets to be appraised are in trade, and the Valuer performed the valuation of the assets by simulating market with conditions such as the transaction conditions of the assets.
2. Assumption of open market: assumption of open market is an assumption of the conditions of the market which assets are to enter and the influence on the assets under such market conditions. The open market means fully developed and improved market conditions, and is a competitive market with voluntary buyers and sellers. In this market, buyers and sellers are equal in status and both have opportunities and time in acquiring ample market information; and all the transactions between them are made on a voluntary, rational, non-compulsory and unrestricted basis.
3. Assumption of continuous use: assumption of continuous use is an assumption of the conditions under which the assets are intended to enter the market and the status of assets under such market conditions. Firstly, it is assumed that the assets to be appraised are in use; secondly, it is assumed that such assets in use will continue to be used. Under the assumption of continuous use, the change of assets use and the best conditions for use of the assets are not taken into account. Therefore, the scope of use of the valuation results is restricted.

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4. Assumption of going concern: it is an assumption for valuation made by taking the whole assets of the enterprise as the object of valuation. Namely, it is assumed that: the enterprise operates continually in pursuit of its operation objectives under its external environment as a business entity; the operators of the enterprise are responsible and capable of assuming liabilities; and the enterprise conducts lawful operation, and is able to acquire appropriate profits to maintain its capability to operate as a going-concern.
5. Assumption of accuracy of information: the Valuer assumes that the information and materials provided by the client and relevant parties on which the result of the valuation relies are trustworthy and has verified such information and materials in accordance with the valuation procedure to the extent necessary, but the Valuer does not make any promise for the truthfulness, legality, completeness of such information and materials.

Assumptions in relation to the income-based approach

1. There are no significant changes in the prevailing laws, regulations and policies of the PRC, no significant changes in the macro-economic conditions of the PRC and no significant changes in the political, economic and social environment in the regions where the parties to the Acquisition are located; there are no other force majeure or unforeseeable factors that may give rise to material adverse impact.
2. It is assumed that the operators of Weichai Lovol are responsible, and the management of Weichai Lovol is able to perform their duties.
3. Unless otherwise stated, it is assumed that Weichai Lovol fully complies with all relevant laws and regulations.
4. It is assumed that the accounting policies adopted in the future by Weichai Lovol are in all material aspects generally consistent with the accounting policies adopted in the compilation of the Valuation Report.
5. It is assumed that on the basis of Weichai Lovol's existing management approach and standard, the business scope and approach are in line with the current direction.
6. It is assumed that the cash flows of Weichai Lovol in the years covered by the Forecast are even cash inflow and cash outflow.
7. It is assumed that there are no material changes in the interest rates, exchanges rates, taxation benchmark and rates, policy levy, etc.
8. It is assumed that after the Valuation Reference Date, the research and development abilities and the advancement of technological edge of Weichai Lovol will remain at the current level.

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9. It is assumed that the amount of the taxable income of Weichai Lovol will be generally consistent with the amount of its profits in its income-generating period in the future and that there are no adjustment events based on material perpetual difference or time difference.
10. It is assumed that the turnover status of accounts receivable and accounts payable of Weichai Lovol in its future income-generating period will remain similar to that in the past and that there will be no defaults on payment for goods that are materially different from the past.
11. It is assumed that the production and sale of Weichai Lovol for the period in the Forecast will remain balanced.
12. It is assumed that there are no material changes in the interest rates, exchanges rates, taxation benchmark and rates, policy levy, etc. According to the “Announcement on the Filing for the Second Batch of High and New Technology Enterprises Recognised in 2021 by Shandong Province”* (《關於對山東省2021年認定的第二批高新技術企業進行備案的公告》), Weichai Lovol has passed the recognition as a “High and New Enterprise”* (高新技術企業) again. Considering factors including the research and development capabilities and the level of research and development expenses, it is assumed that Weichai Lovol can retain its status as a recognised “High and New Technology Enterprise”, so its future income tax rate is estimated to be 15%.
13. It is assumed that the investment, manufacture and sales of Weichai Lovol can be implemented in accordance with its plans.
14. It is assumed that the income, cost, and expense levels of Weichai Lovol in its perpetual period are consistent with those as of 2026.

The results of the valuation in the Valuation Report are based on the above assumptions. If the above assumptions are untenable, then the result of the valuation will be materially affected and it usually will become invalid.

The Board has reviewed the principal assumptions upon which the Forecast was based and is of the view that the Forecast was made after due and careful enquiry.

Deloitte Touche Tohmatsu Certified Public Accountant LLP (“**Deloitte**”), acting as the Company’s auditor, has reported on the arithmetical accuracy of the calculations of the cash flows forecast underlying the Forecast, which does not involve the adoption of accounting policies, set out in the Valuation Report of the Weichai Lovol issued by the Valuer.

A report from Deloitte on the arithmetical accuracy of the calculations of the cash flows forecast underlying the Forecast dated 18 April 2022 for incorporation into this circular and a letter from the Board in relation to the Forecast are set out as Appendix II and Appendix III to this circular, respectively.

LETTER FROM THE BOARD

IV. INFORMATION ON WEICHAI LOVOL

Weichai Lovol is a joint stock limited company established in the PRC. As at the Latest Practicable Date, (i) it is held by Weichai Holdings as to approximately 60.00%, by the Company as to approximately 39.31%, and by CITIC Machinery Manufacturing Inc. (中信機電製造公司) as to 0.69%, and (ii) it is accounted for as a subsidiary of Weichai Holdings. Weichai Lovol, together with its subsidiaries, is principally engaged in the design, development, manufacture and sale of agriculture machinery, construction machinery, vehicles, and vehicle parts and components.

Insofar as the company is aware, the ultimate beneficial owner of CITIC Machinery Manufacturing Inc. is the State Council of the People's Republic of China.

Set out below is the audited consolidated financial information of Weichai Lovol for the two financial years ended 31 December 2020 and 31 December 2021, respectively, and the unaudited consolidated financial information of Weichai Lovol for the three months ended 31 March 2022, prepared based on the generally accepted accounting principles of the PRC:

	For the three months ended 31 March 2022	For the year ended 31 December 2021	For the year ended 31 December 2020
	<i>RMB</i>	<i>RMB</i>	<i>RMB</i>
	<i>(unaudited)</i>	<i>(audited)</i>	<i>(audited)</i>
Revenue	4,296,183,815.75	17,343,923,682.54	13,900,327,473.64
Net profits (loss) before taxation	210,933,286.11	1,115,155,526.35	82,145,353.02
Net profits (loss) after taxation	206,134,509.12	1,241,141,209.03	61,620,233.61

Based on the audited consolidated financial information of Weichai Lovol prepared based on the generally accepted accounting principles of the PRC, as of 31 December 2021, the audited total asset value and net asset value of Weichai Lovol were approximately RMB16,132 million and approximately RMB2,306 million, respectively. Further, based on the unaudited consolidated financial information of Weichai Lovol for the three months ended 31 March 2022, as of 31 March 2022, the total asset value and net asset value of Weichai Lovol were approximately RMB16,831 million and approximately RMB2,478 million, respectively.

As illustrated by the financial information set out above, the performance of Weichai Lovol for the year ended 31 December 2021 improved significantly as compared with that for the year ended 31 December 2020. The Board considers that this is mainly due to the following reasons:

1. In January 2021, Weichai Holdings acquired approximately 60.00% of the shares in Weichai Lovol. Since then, in its capacity as a controlling shareholder of Weichai Lovol, Weichai Holdings had initiated and carried out reformation in various aspects within Weichai Lovol, including internal restructuring and industry positioning. Within a few months of such reformation, the management model and culture of Weichai Lovol has been streamlined and loss-making assets had been replaced with quality assets, and in turn, Weichai Lovol managed to gain an advantage in modern agricultural industry, which along with the promulgation of

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governmental policies in the PRC in favour of the agricultural industry, resulted in a significant improvement in the financial performance of Weichai Lovol in the second half of 2021.

2. In addition, two subsidiaries of Weichai Lovol which were historically operating at a significant loss, had been disposed of and/or wound up in the second half of 2021. This also contributed to the improvement of Weichai Lovol's financial performance for the year ended 31 December 2021.

Weichai Lovol is held as to approximately 39.31% by the Company and is currently accounted for as an associate of the Company. Upon completion of the Acquisition, the Company will hold approximately 62.00% of the total issued share capital of Weichai Lovol and Weichai Lovol will be accounted for as a subsidiary of the Company and the financial results of Weichai Lovol will be consolidated into the consolidated financial statements of the Company.

Insofar as the Company is aware, the original cost of investment incurred by Weichai Holdings in respect of the Sale Shares amounted to approximately RMB631 million.

V. REASONS AND BENEFITS FOR THE ACQUISITION

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

Upon completion of the Acquisition, the Company will hold approximately 62.00% of the total issued share capital of Weichai Lovol and Weichai Holdings will hold approximately 37.31% of the total issued share capital of Weichai Lovol; Weichai Lovol will be accounted for as a subsidiary of the Company and the financial results of Weichai Lovol will be consolidated into the consolidated financial statements of the Company.

As mentioned above, Weichai Lovol and its subsidiaries are principally engaged in, among other things, the development and manufacture of agriculture machinery. Following the acquisition of approximately 39.31% of the share in Weichai Lovol in July 2021, the Company has deepened cooperation with Weichai Lovol in the agriculture machinery market, which has created the desired synergy effect. The Board is of the view that the Acquisition is in line with the Company's strategy to foster an overall solution for the high-end smart agriculture machinery market through utilising the Group's advantages in core technologies and powertrain in terms of engines, CVT, hydraulics and electronic controls, and making use of the competitive edge of end-user resources and product mix of Weichai Lovol, and in turn lead the agriculture machinery market towards further upgrades in terms of size, sophistication and intelligence. Moreover, in light of the significant improvement in the operational results of Weichai Lovol in recent years and the positive market outlook in the agriculture machinery segment, the Acquisition and the consolidation of Weichai Lovol in the consolidated financial statements of the Company following the Completion is expected to be beneficial to the strategic transformation of the Group and, in turn, the operational results and profitability of the Group and enhance return to the Shareholders.

LETTER FROM THE BOARD

In light of the above and taking into account Weichai Lovol's existing management model, recent year's performance and future prospects, and the fact that the relevant Valuation Report was prepared by a qualified independent valuer, the Directors (including the independent non-executive Directors) consider that the Acquisition is fair and reasonable, on normal commercial terms, and in the interests of the Company and its Shareholders as a whole. Although the Acquisition shall be regarded as an investing activity and not in the ordinary and usual course of business of the Group, the Directors (including the independent non-executive Directors) are of the view that such Acquisition will facilitate the vertical integration of upstream and downstream production chain and enable the Group to capture market opportunities, and is therefore beneficial to the long-term strategy and success of the Group.

VI. INFORMATION ON WEICHAI HOLDINGS

Weichai Holdings is principally engaged in the management, investment and the provision of general services.

To the best knowledge, information and belief of the Directors and having made all reasonable enquiries: (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 Shandong Provincial People's Government.

VII. THE LISTING RULES IMPLICATIONS

The highest applicable percentage ratio calculated pursuant to the Listing Rules in respect of the Acquisition exceeds 5% but all of such ratios are less than 25%. Further, for the purpose of ascertaining the highest applicable percentage ratio in accordance with the Listing Rules, the relevant figures for the Acquisition have been aggregated with those for the Previous Acquisition. As the highest applicable percentage ratio calculated pursuant to the Listing Rules for the Acquisition (when aggregated with that for the Previous Acquisition) exceeds 5% but all of such ratios are less than 25%, the Acquisition constitutes a discloseable transaction of the Company and is subject to the reporting and announcement requirements under Chapter 14 of the Listing Rules.

Further, Weichai Holding holds approximately 16.30% of the total issued share capital of the Company and approximately 60.00% of the total issued share capital of Weichai Lovol. As such, Weichai Holdings is a substantial shareholder of the Company and, each of Weichai Holdings and Weichai Lovol is a connected person of the Company. Therefore, the Acquisition constitutes a connected transaction of the Company under Chapter 14A of the Listing Rules, and is subject to the reporting, announcement, circular and the Independent Shareholders' approval requirements under Chapter 14A of the Listing Rules.

At the Board meeting held on 18 April 2022 approving, inter alia, the Acquisition, Mr. Tan Xuguang, Mr. Jiang Kui, Mr. Zhang Quan, Mr. Xu Xinyu and Mr. Sun Shaojun have abstained from voting in respect of the resolution approving the Acquisition in view of their respective positions in Shandong Heavy Industry, Weichai Holdings and/or Weichai Lovol. Save as disclosed above, none of the Directors has a material interest in the Acquisition.

LETTER FROM THE BOARD

VIII. EGM

It was proposed that the relevant Share Transfer Agreement and the transactions contemplated thereunder shall be considered and, if thought fit, approved at the EGM.

The EGM will be held at the Company's conference room at 197, Section A, Fu Shou East Street, High Technology Industrial Development Zone, Weifang, Shandong Province, the PRC on Tuesday, 31 May 2022 to consider and, if thought fit, approve, inter alia, the matters as set out in the notice convening the EGM set out in pages 62 to 64 of this circular.

Other than 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, no Shareholder is required to abstain from voting in respect of such resolution in the EGM.

It is a requirement of the Listing Rules that the voting at the EGM must be taken by poll.

The form of proxy for use at the EGM is enclosed with this circular. Holders of A Shares may use the forms of proxy published by the Company on the website of the Shenzhen Stock Exchange instead. Whether or not you intend to be present at such meeting, you are requested to complete the forms of proxy in accordance with the instructions printed thereon and return the same to Computershare Hong Kong Investor Services Limited at 17M Floor, Hopewell Centre, 183 Queen's Road East, Wan Chai, Hong Kong (with respect to the holders of H Shares) or the Company's registered office at 197, Section A, Fu Shou East Street, High Technology Industrial Development Zone, Weifang, Shandong Province, the PRC (postal code: 261061) (attention: the office of the Board of Directors) (with respect to the holders of A Shares), no later than 24 hours before the time fixed for holding the EGM or any adjournment thereof.

Completion and delivery of the form of proxy will not prevent you from attending and voting at the relevant meeting or any adjournment thereof if you so wish.

IX. CLOSURE OF REGISTER OF HOLDERS OF H SHARES

The register of holders of H Shares of the Company will be closed from 28 May 2022 to 31 May 2022, both days inclusive, during which period no transfer of H Shares will be effected. In order to qualify for attending the EGM, all transfer documents of H Shares accompanied by the relevant share certificates must be lodged with Computershare Hong Kong Investor Services Limited at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong not later than 4:30 p.m. on 27 May 2022.

LETTER FROM THE BOARD

X. RECOMMENDATIONS

Having considered the reasons set out herein, the Directors, including the independent non-executive Directors (having considered the advice of the Independent Financial Adviser in respect of the Acquisition), are of the opinion that the terms of the Share Transfer Agreement and the transactions contemplated thereunder are fair and reasonable, on normal commercial terms, and in the interests of the Shareholders as a whole. Although the Acquisition shall be regarded as an investing activity and not in the ordinary and usual course of business of the Group, the Directors, including the independent non-executive Directors (having considered the advice of the Independent Financial Adviser in respect of the Acquisition) are of the view that such Acquisition is beneficial to the long-term strategy and success of the Group. Accordingly, the Directors recommend the Independent Shareholders to vote in favour of the resolution regarding the same.

The Independent Board Committee comprising the independent non-executive Directors (namely, Mr. Li Hongwu, Mr. Wen Daocai, Ms. Jiang Yan, Mr. Yu Zhuoping and Ms. Zhao Huifang) has been appointed to consider the Acquisition. The Independent Financial Adviser has been appointed to advise the Independent Board Committee and the Independent Shareholders on the fairness and reasonableness of the Share Transfer Agreement and the transactions contemplated thereunder. Your attention is drawn to (i) the letter setting out the advice from the Independent Board Committee to the Independent Shareholders, and (ii) the letter of advice from the Independent Financial Adviser setting out its advice to the Independent Board Committee and the Independent Shareholders in relation to the Acquisition, which are set out in this circular.

XI. FURTHER INFORMATION

Your attention is also drawn to the additional information set out in the appendices to this circular.

Yours faithfully,
For and on behalf of
the Board of Directors
Tan Xuguang
Chairman and CEO



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)

16 May 2022

*To the Independent Shareholders
of Weichai Power Co., Ltd.*

Dear Sir or Madam,

**DISCLOSEABLE AND CONNECTED TRANSACTION
ACQUISITION OF APPROXIMATELY 22.69% SHARES IN WEICHAI LOVOL**

We have been appointed as members of the Independent Board Committee to advise the Independent Shareholders of Weichai Power Co., Ltd. to consider the Share Transfer Agreement and the transactions contemplated thereunder, details of which are set out in the “Letter from the Board” contained in the circular of the Company dated 16 May 2022 (the “**Circular**”). Unless the context otherwise requires, terms defined in the Circular shall have the same meanings when used in this letter.

Your attention is drawn to the “Letter from the Board”, the advice of the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders in respect of the Acquisition as set out in the “Letter from the Independent Financial Adviser on the Acquisition” as well as other additional information set out in other parts of the Circular.

Having taken into account the advice of, and the principal factors and reasons considered by the Independent Financial Adviser in relation thereto as stated in its letter, we consider that the terms of the Share Transfer Agreement and the transactions contemplated thereunder are fair and reasonable and are on normal commercial terms or better, and in the interest of the Company and its shareholders as a whole. Although the Acquisition shall be regarded as an investing activity and not in the ordinary and usual course of business of the Group, we are of the view that such Acquisition is beneficial to the long-term strategy and success of the Group. We therefore recommend that you vote in favour of the ordinary resolution to be proposed at the EGM to approve the Share Transfer Agreement and the transactions contemplated thereunder.

Li Hongwu
*Independent
non-executive Director*

Yours faithfully,
The Independent Board Committee

Wen Daocai
*Independent
non-executive Director*

Jiang Yan
*Independent
non-executive Director*

Yu Zhuoping
*Independent
non-executive Director*

Zhao Huifang
*Independent
non-executive Director*

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER ON THE ACQUISITION

The following is the full text of the letter dated 16 May 2022 from Trinity Corporate Finance Limited, the Independent Financial Adviser, to the Independent Board Committee and the Independent Shareholders in respect of the Acquisition, prepared for the purpose of incorporation in this circular.

TRINITY

Trinity Corporate Finance Limited
Unit 05, 29/F,
50 Wong Chuk Hang Road,
Hong Kong.

16 May 2022

To the Independent Board Committee and the Independent Shareholders of Weichai Power Co., Ltd.

Dear Sirs,

DISCLOSEABLE AND CONNECTED TRANSACTION ACQUISITION OF APPROXIMATELY 22.69% SHARES IN WEICHAI LOVOL

INTRODUCTION

We refer to our appointment to advise the Independent Board Committee and the Independent Shareholders in respect of the Acquisition, details of which are set out in the letter from the Board (the “**Letter from the Board**”) in the Company’s circular dated 16 May 2022 (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 18 April 2022, the Company entered into the Share Transfer Agreement with Weichai Holdings and Weichai Lovol in respect of the Acquisition, pursuant to which the Company has conditionally agreed to purchase, and Weichai Holdings has conditionally agreed to sell, the Sale Shares (representing approximately 22.69% of total issued shares of Weichai Lovol) at the initial consideration of RMB1,584,461,400 (equivalent to approximately HK\$1,944,840,309) (subject to adjustments). Upon completion of the Acquisition, the Company will become a holder of approximately 62.00% of the total issued share capital of Weichai Lovol; Weichai Lovol will be accounted for as a subsidiary of the Company and the financial results of Weichai Lovol will be consolidated into the consolidated financial statements of the Company.

The highest applicable percentage ratio calculated in accordance with the Listing Rules in respect of the Acquisition exceeds 5% but all of such ratios are less than 25%. Further, for the purpose of ascertaining the highest applicable percentage ratio in accordance with the Listing Rules, the relevant figures for the Acquisition have been aggregated with those for the Previous Acquisition. As the highest applicable percentage ratio calculated pursuant to the Listing Rules for the Acquisition (when aggregated with that for the Previous Acquisition) exceeds 5% but all of such ratios are less than 25%, the Acquisition constitutes a discloseable transaction of the Company and is subject to the reporting and announcement requirements under Chapter 14 of the Listing Rules.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER ON THE ACQUISITION

Further, Weichai Holdings holds approximately 16.30% of the total issued share capital of the Company and approximately 60.00% of the total issued share capital of Weichai Lovol. As such, Weichai Holdings is a substantial shareholder of the Company and, each of Weichai Holdings and Weichai Lovol is a connected person of the Company. Therefore, the Acquisition constitutes a connected transaction of the Company under Chapter 14A of the Listing Rules, and is subject to the reporting, announcement, circular and the Independent Shareholders' approval requirements under Chapter 14A of the Listing Rules.

At the Board meeting held on 18 April 2022 approving, inter alia, the Acquisition, Mr. Tan Xuguang, Mr. Jiang Kui, Mr. Zhang Quan, Mr. Xu Xinyu and Mr. Sun Shaojun have abstained from voting in respect of the resolution approving the Acquisition in view of their respective positions in Shandong Heavy Industry, Weichai Holdings and/or Weichai Lovol. Save as disclosed above, none of the Directors has a material interest in the Acquisition.

The Independent Board Committee, comprising the independent non-executive Directors, (namely, Mr. Li Hongwu, Mr. Wen Daocai, Ms. Jiang Yan, Mr. Yu Zhuoping and Ms. Zhao Huifang) has been appointed to consider the Acquisition, and to advise the Independent Shareholders as to whether the terms of the Share Transfer Agreement are fair and reasonable and on how to vote on the relevant resolution(s) at the general meeting, 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 transactions announced on 27 August 2020 (details of which were set out in the circular of the Company dated 23 October 2020), the non-exempt continuing connected transaction announced on 25 February 2021 (details of which were set out in the circular of the Company dated 30 April 2021), the non-exempt continuing connected transactions announced on 30 March 2022 and the major and continuing connected transactions announced on 30 March 2022. Apart from normal professional fees paid or payable to us in connection with such appointments, no arrangements exist whereby we had received or will receive any fees or benefits from the Company or any other party to the transaction, 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 general meeting, 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 Acquisition.

This letter is issued to the Independent Board Committee and the Independent Shareholders solely in connection with their consideration of the Acquisition 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 Acquisition, we have taken into account the following principal factors and reasons:

A. Background of the Company

1. *Financial performance of the Company*

For the financial year ended 31 December 2021, the Company's revenue increased by approximately 3.2% as compared with that in the corresponding period of 2020 to approximately RMB203,548 million. Net profit attributable to shareholders of the Company was approximately RMB9,254 million, representing an increase of approximately 0.3% as compared with that in the corresponding period of 2020. Basic earnings per share was RMB1.1, representing a decrease of approximately 5.2% as compared with that in the corresponding period of 2020.

2. *Review of operating conditions of the Company*

According to the Chairman's Statement set out in the Company's final results announcement for the year ended 31 December 2021, in 2021, the Chinese government pursued to construct a new development landscape and promoted high-quality development. With the nation's continuously rising strategic technological power and strengthened industrial chain resilience, China's key macroeconomic indicators maintained within a reasonable range and achieved a good start of the "14th Five-Year Plan". The annual gross domestic product reached RMB114 trillion, representing a year-on-year increase of 8.1%. The heavy-duty truck industry of China delivered sales volume of 1,395,000 units, representing a year-on-year decrease of 13.8%; the construction machinery industry of China delivered sales volume of 1,014,000 units (including 417,000 units of diesel forklift trucks), representing a year-on-year growth of 10.4%. During the reporting period, the Company remained focused on its principal businesses and proactively responded to external and internal environmental changes and critical market challenges, achieving high-quality development. Through expediting breakthroughs in key and core technologies, we strived to offer the most competitive products and services and solidified our leading position in the market. Strong breakthroughs have been made in new business format, new energy and new technology; overseas business has grown substantially; and the advantages of diversified businesses and the effect of structural adjustment have been highlighted, further enhancing our comprehensive competitiveness.

B. Introduction

The Company entered into the Share Transfer Agreement with Weichai Holdings and Weichai Lovol, pursuant to which the Company has conditionally agreed to purchase, and Weichai Holdings has conditionally agreed to sell, the Sale Shares (representing approximately 22.69% of the total issued shares of Weichai Lovol) at the initial consideration of RMB1,584,461,400 (equivalent to approximately HK\$1,944,840,309) (subject to adjustments).

C. Details of the Share Transfer Agreement

The principal terms of the Share Transfer Agreement are as follows:

Date: 18 April 2022

Parties: 1. the Company, as the purchaser
2. Weichai Holdings, as the seller
3. Weichai Lovol, as the target company

Subject Matter

The Company has conditionally agreed to purchase, and Weichai Holdings has conditionally agreed to sell, the Sale Shares, namely, 274,401,120 shares of Weichai Lovol (representing approximately 22.69% of the total issued share capital of Weichai Lovol).

Consideration

The purchase price for the Sale Shares (the “**Initial Consideration**”) is RMB1,584,461,400 (equivalent to approximately HK\$1,944,840,309), which was determined after arm’s length negotiation between the parties to the Share Transfer Agreement based on the appraised value of Weichai Lovol and its subsidiaries of RMB8,520,574,100 as at the Valuation Reference Date as set out in the Valuation Report and taking into account (i) the dividend in the amount of RMB540,000,000 resolved at the general meeting of Weichai Lovol to be distributed in cash for the year 2021, and (ii) the possible refund and/or deduction of certain value-added tax of Weichai Lovol in the amount of up to RMB998,948,500 (please refer to the sub-section headed “Special arrangement regarding refund of value-added tax” in the Letter from the Board).

The Initial Consideration is subject to the customary adjustment based on the profit/loss during the period from the Valuation Reference Date to the Completion Date (the “**Transitional Period**”) in the following manner:

- (i) if Weichai Lovol makes a profit during the Transitional Period, Weichai Lovol shall make up the profit that Weichai Holdings should enjoy during the Transitional Period according to the shareholding percentage of the Company and Weichai Holdings in Weichai Lovol before the Completion by way of dividend; and
- (ii) otherwise, Weichai Holdings shall make up the loss it should bear during the Transitional Period to the Company.

We have reviewed the terms relating to the Transitional Period and consider that such arrangement is fair and reasonable and in the interests of the Independent Shareholders as it is fair and reasonable that the Company is not entitled to the profit generated during the Transitional Period, but before Completion Date, and vice versa, does not incur a loss should Weichai Lovol incur a loss during the same period.

Weichai Holdings and the Company shall jointly engage auditors to audit the profit/loss during the Transitional Period within 15 days after the Completion Date. The profit/loss in any period less than one calendar month during the Transitional Period shall be calculated by multiplying (i) the profit/loss occurred in the full month in which the Completion Date falls and (ii) the proportion of the number of days between the first day of that month and the Completion Date in the total number of days in that calendar month.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER ON THE ACQUISITION

Further, if Weichai Lovol disposes of any of its assets during the Transitional Period, such disposal shall be made in accordance with the relevant appraised value of the relevant assets as set out in the Valuation Report, and adjustments to the Initial Consideration will also be made on the same basis as set out above.

The Board does not expect that the above adjustment to the Initial Consideration, if any, will result in a change in the classification of the Acquisition under Chapter 14 of the Listing Rules.

The Consideration shall be payable by the Company to the designated bank account of Weichai Holdings in cash in one lump sum within 30 working days after the Share Transfer Agreement taking effect in accordance with the relevant conditions precedent set out below.

The Consideration is expected to be funded out of the Group's financial resources.

Further information on the basis of determination of the Consideration

As disclosed in the Letter from the Board, the purchase price for the Sale Shares (subject to customary adjustment) is approximately RMB1,584 million, which is significantly higher than (i) the original cost of investment incurred by Weichai Holdings in respect of the Sale Shares (which insofar as the Company is aware, amounted to approximately RMB631 million); (ii) the net assets value of Weichai Lovol as at 31 December 2021 attributable to the Sale Shares amounting to approximately RMB523 million; and (iii) the consideration of approximately RMB985 million paid by the Company in acquiring approximately 39.31% shares in Weichai Lovol under the Previous Acquisition, for the following reasons:

1. When Weichai Holdings acquired approximately 60.00% of the shares in Weichai Lovol in January 2021, Weichai Lovol has been performing at a loss. In 2019, Weichai Lovol, on a consolidated basis, had suffered a loss of approximately RMB1,008 million and accordingly, the original cost of investment incurred by Weichai Holdings was relatively low.
2. As at 31 March 2021, being the valuation reference date for the Previous Acquisition, Weichai Lovol had not yet undergone any substantial changes in respect of its management and operation model. In 2020, Weichai Lovol was at a loss of RMB743 million. Thus, as at the valuation reference date for the Previous Acquisition, it was considered infeasible to reasonably and correctly forecast the future revenue and profits of Weichai Lovol as high uncertainty lies in the parameters for the income-based approach, and an asset-based approach was adopted as the valuation method for the Previous Acquisition. It was only since the second half of 2021, as further elaborated in the sub-section headed "Information on Weichai Lovol" below, that the performance of Weichai Lovol improved significantly.
3. For the Acquisition, the Valuer adopted the income-based approach in determining the appraised value of Weichai Lovol and its subsidiaries.

Although less than a year has elapsed between the Valuation Reference Date and the valuation reference date for the Previous Acquisition, the management and operation model of Weichai Lovol has transformed substantially due to the steering of Weichai Holdings. As advised by the Valuer, under the asset-based approach, the impact of the factors such as the comprehensive profitability of various assets, enterprise brand awareness, customer resources, sales network, human resources, research and development team, the synergy effect of the related companies could not be individually quantified, particularly in light of the substantial transformation within Weichai Lovol. However, the income-based approach could better reflect the overall value of Weichai Lovol by taking into account these factors and the influence exerted by the controlling shareholder.

4. In light of the above, the appraised value of Weichai Lovol and its subsidiaries had increased from RMB3,500 million as at 31 March 2021, i.e. the valuation reference date for the Previous Acquisition, to RMB8,500 million as at the Valuation Reference Date. The choices of asset-based approach and income-based approach each for 31 March 2021 and the Valuation Reference Date, respectively, which were based on the management model and operational conditions of Weichai Lovol at each point of time, aiming to correctly reflect the total equity of shareholders at each date, contributed to such increase in the appraised value of Weichai Lovol and its subsidiaries. The increase in the appraised value of Weichai Lovol and its subsidiaries in turn resulted in the difference between the Initial Consideration and the consideration paid by the Company in the Previous Acquisition.

According to the Letter from the Board, in light of the above, the Board concurs with the Valuer's adoption of the income-based approach in determining the appraised value of Weichai Lovol and subsidiaries and considers that the Initial Consideration is fair and reasonable and in the interest of Company and its shareholders.

We have reviewed and considered the above reasons for the difference in valuation basis and valuation results, especially that (i) the income-based approach was not appropriate for the Previous Acquisition due to the fact that in 2020, Weichai Lovol was at a loss of RMB743 million. Thus, as at the valuation reference date for the Previous Acquisition, it was considered infeasible to reasonably and correctly forecast the future revenue and profits of Weichai Lovol as high uncertainty lies in the parameters for the income-based approach; and (ii) it was only since the second half of 2021 that the performance of Weichai Lovol improved significantly. As a result, we concur with the Board that the Valuer's adoption of the income-based approach in determining the appraised value of Weichai Lovol and its subsidiaries, instead of the asset-based approach adopted for the Previous Acquisition, and the Initial Consideration which adopts the income-based approach, is fair and reasonable and in the interest of Independent Shareholders.

Conditions precedent to the Share Transfer Agreement taking effect

Apart from the Share Transfer Agreement being signed by the legal representative or authorised representative and affixed with seals of all parties thereto, the Share Transfer Agreement shall only become effective upon satisfaction of the following conditions precedent:

- (i) the Acquisition having been reviewed and approved by each of the parties in accordance with the requirements of the relevant laws, regulations and internal policies (including by the Independent Shareholders at the general meeting of the Company); and
- (ii) the Acquisition having been approved by the National Anti-Monopoly Bureau* (國家反壟斷局) of the PRC.

According to the Letter from the Board, none of the abovementioned conditions precedent are waivable and the parties shall use their reasonable endeavours to fulfill the conditions precedent as soon as possible, and as at the Latest Practicable Date, the Company had made the relevant anti-monopoly filings with the relevant authorities and was informed that such filings were no longer applicable and hence the above condition (ii) is deemed to be fulfilled, whilst the above condition (i) is yet to be satisfied.

Completion

Completion shall take place on the date (the “**Completion Date**”) on which the Company pays the Initial Consideration in full in accordance with the Share Transfer Agreement. On the Completion Date, Weichai Lovol shall register the Sale Shares under the name of the Company and provide an original copy of the updated register of members (affixed with company chop and signed by its legal representative) to the Company.

Termination

The Share Transfer Agreement shall be terminated in the following manners:

- (i) all parties to the Share Transfer Agreement agree to terminate the Share Transfer Agreement in writing and agree on the effective date of such termination;
- (ii) if the Company fails to pay the Initial Consideration in full to Weichai Holdings on time in accordance with the Share Transfer Agreement and such delay reaches 20 working days or more, Weichai Holdings may terminate the Share Transfer Agreement unilaterally; or

- (iii) if (a) the Company discovers that any of Weichai Holding's representations and warranties under the Share Transfer Agreement is untrue, inaccurate or misleading in materials aspects, which has caused the failure of the Company to realise its intended purpose in relation to the Acquisition, or (b) Weichai Holdings fails to complete or, as the case maybe, procure that Weichai Lovol the completion procedures and/or the registration procedures in accordance with the requirements of the Share Transfer Agreement, the Company may terminate the Share Transfer Agreement by notifying Weichai Holdings in writing.

If the Share Transfer Agreement is terminated pursuant to the provisions above, the parties shall return the relevant consideration received in accordance with the principles of fairness, reasonableness and integrity, and return to the status before the Share Transfer Agreement is signed. All rights and obligations of the parties under the Share Transfer Agreement shall cease to exist, provided that the termination of the Share Transfer Agreement shall not affect the claim for compensation for breach of the Share Transfer Agreement by complying party(ies) against non-complying party(ies).

Special arrangement regarding refund of value-added tax

As disclosed in the announcement of the Company dated 13 July 2021 in relation to, among other things, the acquisition by the Company of approximately 38.62% of the total issued share capital of Weichai Lovol from Arbos, Weichai Holdings, the Company, Arbos and Weichai Lovol made certain arrangements in respect of the possible refund and/or deduction of certain value-added tax of Weichai Lovol (up to RMB998,948,500), whereby among others, the Company has agreed to pay to Arbos 38.62% of such amount actually refunded to Weichai Lovol.

The parties to the Share Transfer Agreement also agreed that after the completion of the Acquisition, if Weichai Lovol receives any refund of the abovementioned value-added tax, the Company would pay to Weichai Holdings 22.69% of such amount actually refunded to Weichai Lovol before the Company performs its obligations pursuant to the arrangements mentioned in the paragraph above.

D. Valuation

According to the Letter from the Board, the appraised value of the Sale Shares of Weichai Lovol was determined by the Valuer based on the income approach. Accordingly, such valuation constitutes a profit forecast under Rule 14.61 of the Listing Rules (the "Forecast").

We have reviewed the Valuation Report and note that the valuation methodology was based on the income approach and the asset-based approach and finally the Valuer selected the valuation result using the income approach. We consider that the use of the income approach is fair and reasonable as the income approach is appropriate for the valuation of companies with a profitable track record. The asset-based approach is suitable for valuations of assets or businesses which do not generate profits or for companies at an early stage of development.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER ON THE ACQUISITION

Accordingly, as the Company generated a substantial net profit after taxation of approximately RMB1,241,141,209.03 for the year ended 31 December 2021, the use of the income approach is fair and reasonable.

We note that according to the Valuation Report, the income of Weichai Lovol is classified into segments of agricultural equipment, agricultural machineries, vehicles and accessories, among which agricultural equipment includes harvest machinery, navigation equipment and tractor business, and vehicles include motorcycles, electric tricycles, tricycles and off-highway four-wheelers and the amounts of the expected income for the respective forecast years are as follows:

Unit: RMB ten thousand

Types of Operation	2022	2023	2024	2025	2026	2027 and perpetual period
Sub-total of revenue from principal operations	1,616,339.04	1,789,474.68	1,953,377.56	2,151,524.03	2,154,853.38	2,154,853.38
Other revenue	<u>14,987.41</u>	<u>14,987.41</u>	<u>14,987.41</u>	<u>14,987.41</u>	<u>14,987.41</u>	<u>14,987.41</u>
Revenue	<u><u>1,631,326.45</u></u>	<u><u>1,804,462.09</u></u>	<u><u>1,968,364.96</u></u>	<u><u>2,166,511.44</u></u>	<u><u>2,169,840.79</u></u>	<u><u>2,169,840.79</u></u>

For full details of the analysis of revenue and expenses, Independent Shareholders are advised to refer to Appendix I: “Summary of the Valuation Report” in the Circular. Set out below are a summary of the key points of the analysis:

(I) Forecast and analysis of sales volume and price of agricultural equipment and agricultural machineries

1. Harvest machinery business involves wheat harvesters, corn harvesters and other small-scale harvest machineries

The subsidy for wheat harvesters has been relatively stable in recent years and is therefore assumed to remain stable in the next three years.

The corn harvester market has entered a period of rapid growth since 2012 and in recent years, the market sales of the corn harvesters have been increasing yearly with increasing market share.

2. *Navigation equipment is a new business and the development of intelligent agriculture is the future trend. Autonomous driving will be recognized by more customers and will present a growing trend in the future and therefore the sales volume of products from this segment shall have a relatively significant increase.*
3. *Tractors of Weichai Lovol will be more intelligent and high-end and its market share in the future will also be further increased.*

In terms of the sales price of harvest machineries, navigation equipment and tractors, it is not expected that there will be any significant adjustments compared to the price in 2021.

(II) Forecast and analysis of sales volume and price of vehicle business

Vehicles are mainly motor tricycles, electric tricycles, tricycles and off-highway four-wheelers and sales volume is expected to maintain a steady development with stable sales volume. In terms of sales price of vehicles, it is assumed that there will not be a significant increase in raw materials and therefore the sales price will be based on the level of 2021.

(III) Accessories and other operations

The forecast is based on the proportion of accessories in the principal operations.

(IV) Revenue from other operations

This part of revenue is mainly the gains on disposal of waste materials, which is forecasted with reference to the average value of the past three years.

(V) Analysis of the cost of principal operations

According to the Valuation Report, based on the business development of each segment of Weichai Lovol and the analysis of the cost-to-revenue ratio of each segment, the cost of sales will be calculated based on this ratio in the future. For products with little change in cost-to-revenue ratio in the past three years, the forecast is based on the average cost-to-revenue ratio in the past three years. For the products with gradually increasing or decreasing cost-to-revenue ratio in the historical period and the changes were mostly in product structure or product specification as analyzed, the cost-to-revenue ratio of these products will be forecasted with reference to the level in 2021. For navigation products, it is known that the cost of normal production of the navigation accounts for approximately 0.93% of the revenue and this forecast is based on the proportion.

(VI) Forecast of distribution and selling expenses

According to the Valuation Report, based on the analysis of the historical annual distribution and selling expense data of Weichai Lovol, the forecast is made according to the proportion accounting in the revenue from principal operations in previous years.

(VII) Forecast and analysis of general and administrative expenses

According to the Valuation Report, the general and administrative expenses of Weichai Lovol mainly include staff remuneration, amortisation of intangible assets, property insurance premium, depreciation expenses, lease expenses, office expenses, travel expenses, consulting expenses, business entertainment expenses, amortisation of low-value consumables, environmental construction expenses, litigation expenses, repair expenses, publicity expenses, transportation expenses, water and electricity expenses, membership expenses, safety production expenses, heating and cooling expenses, labor protection expenses, communication expenses, public security management expenses, conference expenses, consumption of organic materials, relocation expenses, employment guarantee for the disabled, others and etc. Based on the analysis of the historical annual general and administrative expense data of Weichai Lovol, the forecast is made according to the proportion accounting in the revenue during the historical period.

(VIII) Forecast and analysis of research and development expenses

According to the Valuation Report, the research and development expenses of Weichai Lovol mainly include staff remuneration, travel expenses, testing costs, outsourcing expenses, amortisation of intangible assets, depreciation expenses, other expenses and etc. Based on the analysis of the historical annual research and development expense data of Weichai Lovol, the forecast is made according to the proportion of expenses during the historical period.

(IX) Forecast of finance expenses

According to the Valuation Report, finance expenses during the historical period include interest expenses, interest income and bank settlement handling fees and others.

We also note that according to the Valuation Report, Weichai Lovol has no plan to terminate its operations and an indefinite period is therefore adopted.

In summary, we consider that the above forecasts and analysis of the respective income and costs of Weichai Lovol and the adoption of an indefinite period are fair and reasonable.

We also note that the valuation report prepared in respect of the acquisition of 39.31% shares in Weichai Lovol announced on 13 July 2021 was prepared adopting an asset-based approach. We consider that this was due to the fact that the latest audited net loss after taxation for the 3 months ended 31 March 2021, which was the latest financial information available then, was RMB313,560,617.99. Therefore the Valuer chose to adopt the asset-based approach based on the latest loss-making results of Weichai Lovol. However, as discussed above, for the year ended 31 December 2021, being the latest audited financial information herein, the net profit after taxation of Weichai Lovol was RMB1,241,141,209.03, and accordingly we consider that the use of the income approach for the valuation report herein is fair and reasonable.

According to the Letter from the Board, in compliance with Rule 14A.68(7) of the Listing Rules, the principal assumptions upon which the Forecast was based are set out as follows:

General assumptions

1. Assumption of trading: it is assumed that all the assets to be appraised are in trade, and the Valuer performed the valuation of the assets by simulating market with conditions such as the transaction conditions of the assets.
2. Assumption of open market: assumption of open market is an assumption of the conditions of the market which assets are to enter and the influence on the assets under such market conditions. The open market means fully developed and improved market conditions, and is a competitive market with voluntary buyers and sellers. In this market, buyers and sellers are equal in status and both have opportunities and time in acquiring ample market information; and all the transactions between them are made on a voluntary, rational, non-compulsory and unrestricted basis.
3. Assumption of continuous use: assumption of continuous use is an assumption of the conditions under which the assets are intended to enter the market and the status of assets under such market conditions. Firstly, it is assumed that the assets to be appraised are in use; secondly, it is assumed that such assets in use will continue to be used. Under the assumption of continuous use, the change of assets use and the best conditions for use of the assets are not taken into account. Therefore, the scope of use of the valuation results is restricted.
4. Assumption of going concern: it is an assumption for valuation made by taking the whole assets of the enterprise as the object of evaluation. Namely, it is assumed that: the enterprise operates continually in pursuit of its operation objectives under its external environment as a business entity; the operators of the enterprise are responsible and capable of assuming liabilities; and the enterprise conducts lawful operation, and is able to acquire appropriate profits to maintain its capability to operate as a going-concern.
5. Assumption of accuracy of information: the Valuer assumes that the information and materials provided by the client and relevant parties on which the result of the valuation relies are trustworthy and has verified such information and materials in accordance with the valuation procedure to the extent necessary, but the Valuer does not make any promise for the truthfulness, legality, completeness of such information and materials.

We have reviewed the general assumptions set out above, and consider that the general assumptions are fair and reasonable and especially the assumptions of going concern and accuracy of information are important assumptions for valuations as this will have an important bearing on the free cashflow of the business and the future prospects of the target company, and hence the valuation results.

Assumptions in relation to the income-based approach

1. There are no significant changes in the prevailing laws, regulations and policies of the PRC, no significant changes in the macro-economic conditions of the PRC and no significant changes in the political, economic and social environment in the regions where the parties to the Acquisition are located; there are no other force majeure or unforeseeable factors that may give rise to material adverse impact.
2. It is assumed that the operators of Weichai Lovol are responsible, and the management of Weichai Lovol is able to perform their duties.
3. Unless otherwise stated, it is assumed that Weichai Lovol fully complies with all relevant laws and regulations.
4. It is assumed that the accounting policies adopted in the future by Weichai Lovol are in all material aspects generally consistent with the accounting policies adopted in the compilation of the Valuation Report.
5. It is assumed that on the basis of Weichai Lovol's existing management approach and standard, the business scope and approach are in line with the current direction.
6. It is assumed that the cash flows of Weichai Lovol in the years covered by the Forecast are even cash inflow and cash outflow.
7. It is assumed that there are no material changes in the interest rates, exchanges rates, taxation benchmark and rates, policy levy, etc.
8. It is assumed that after the Valuation Reference Date, the research and development abilities and the advancement of technological edge of Weichai Lovol will remain at the current level.
9. It is assumed that the amount of the taxable income of Weichai Lovol will be generally consistent with the amount of its profits in its income-generating period in the future and that there are no adjustment events based on material perpetual difference or time difference.
10. It is assumed that the turnover status of accounts receivable and accounts payable of Weichai Lovol in its future income-generating period will remain similar to that in the past and that there will be no defaults on payment for goods that are materially different from the past.
11. It is assumed that the production and sale of Weichai Lovol for the period in the Forecast will remain balanced.

12. It is assumed that there are no material changes in the interest rates, exchanges rates, taxation benchmark and rates, policy levy, etc. According to the “Announcement on the Filing for the Second Batch of High and New Technology Enterprises Recognised in 2021 by Shandong Province” (《關於對山東省2021年認定的第二批高新技術企業進行備案的公告》), Weichai Lovol has passed the recognition as a “High and New Enterprise” (高新技術企業) again. Considering factors including the research and development capabilities and the level of research and development expenses, it is assumed that Weichai Lovol can retain its status as a recognised “High and New Technology Enterprise”, so its future income tax rate is estimated to be 15%.
13. It is assumed that the investment, manufacture and sales of Weichai Lovol can be implemented in accordance with it plans.
14. It is assumed that the income, cost, and expense levels of Weichai Lovol in its perpetual period are consistent with those as of 2026. We consider that it is fair and reasonable to assume that the income, cost and expense levels of Weichai Lovol in its perpetual period are consistent with those as of 2026, which means that all projections beyond 2026 are assumed to be consistent as that of the forecast period in 2026.

The results of the valuation in the Valuation Report are based on the above assumptions. If the above assumptions are untenable, then the result of the valuation will be materially affected and it usually will become invalid. We have reviewed the projections for the five years ending 31 December 2026 in the Forecast, including the product and revenue breakdowns, cost and expenses breakdowns, tax breakdowns, administrative and R&D expenses breakdowns and consider that the basis and assumptions are fair and reasonable.

According to the Letter from the Board, the Board has reviewed the principal assumptions upon which the Forecast was based and is of the view that the Forecast was made after due and careful enquiry.

For our due diligence purpose, we reviewed and considered (i) the terms of engagement of the Valuer with the Company, including the appropriateness of its scope of work, and the independence of the Valuer; (ii) the Valuer’s qualifications and expertise in relation to the preparation of the Valuation Report; and (iii) the valuation methods adopted by the Valuer for preparation of the Valuation Report. Based on our review of the mandate letter and other relevant information provided by the Valuer, we are satisfied that the terms of engagement of the Valuer, including the appropriateness of its scope of work, are appropriate and we are also satisfied as to the qualifications and expertise, and the independence, of the Valuer for preparation of the Valuation Report. The Valuer also confirmed that they are independent to the Company.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER ON THE ACQUISITION

As the Valuation Report was prepared by the Valuer using the income approach, it is stipulated under Rule 14.62 of the Hong Kong Listing Rules that the Company is required to obtain, as appropriate:

1. a letter from its auditors or reporting accountants confirming that they have reviewed the accounting policies and calculations for the forecast and containing their report; and
2. the Company must provide a letter from the board of directors confirming that they have made the forecast after due and careful enquiry.

We consider that the above stipulation of the Hong Kong Listing Rules could safeguard the interest of Independent Shareholders. We noted that (i) the Company's auditors confirmed that in their opinion, so far as the arithmetical accuracy of the calculation is concerned, the discounted future cashflows have been properly compiled in accordance with the bases and assumptions adopted by the Directors as set out in the Valuation Report; and (ii) the Board confirmed that the forecast has been made after due and careful enquiry.

We have also reviewed the assumptions in respect of the income approach and confirm that the assumptions are fair and reasonable and appropriate for valuations on an income approach, especially assumptions relating to no significant changes in prevailing laws and regulations and no material changes in the interest rates, exchanges rates, taxation benchmark etc. as these will have a significant impact on the free cashflow of Weichai Lovol and hence on its valuation. We have also considered the valuation based on asset-based approach and concur with the Valuer that the income-based approach is the fair and reasonable basis for the Valuation due to the profitable track record of Weichai Lovol.

E. Information on Weichai Lovol

Weichai Lovol is a joint stock limited company established in the PRC. As of the Latest Practicable Date, (i) it is held by Weichai Holdings as to approximately 60.00%, by the Company as to approximately 39.31%, and by CITIC Machinery Manufacturing Inc. (中信機電製造公司) as to 0.69%, and (ii) it is accounted for as a subsidiary of Weichai Holdings. Weichai Lovol, together with its subsidiaries, is principally engaged in the design, development, manufacture and sale of agriculture machinery, construction machinery, vehicles, and vehicle parts and components.

According to the Letter from the Board, insofar as the Company is aware, the ultimate beneficial owner of CITIC Machinery Manufacturing Inc. is the State Council of the People's Republic of China.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER ON THE ACQUISITION

Set out below is the audited consolidated financial information of Weichai Lovol for the two financial years ended 31 December 2020 and 31 December 2021, respectively, and the unaudited consolidated financial information of Weichai Lovol for the three months ended 31 March 2022, prepared based on the generally accepted accounting principles of the PRC:

	For the three months ended 31 March 2022 RMB (unaudited)	For the year ended 31 December 2021 RMB (audited)	For the year ended 31 December 2020 RMB (audited)
Revenue	4,296,183,815.75	17,343,923,682.54	13,900,327,473.64
Net profits (loss) before taxation	210,933,286.11	1,115,155,526.35	82,145,353.02
Net profits (loss) after taxation	206,134,509.12	1,241,141,209.03	61,620,233.61

Based on the audited consolidated financial information of Weichai Lovol prepared based on the generally accepted accounting principles of the PRC, as of 31 December 2021, the audited total asset value and net asset value of Weichai Lovol were approximately RMB16,132 million and approximately RMB2,306 million, respectively. Further, based on the unaudited consolidated financial information of Weichai Lovol for the three months ended 31 March 2022, as of 31 March 2022, the total asset value and net asset value of Weichai Lovol were approximately RMB16,831 million and approximately RMB2,478 million, respectively.

According to the Letter from the Board, the performance of Weichai Lovol for the year ended 31 December 2021 improved significantly as compared with that for the year ended 31 December 2020. The Board considers that this is mainly due to the following reasons:

1. In January 2021, Weichai Holdings acquired approximately 60.00% of the shares in Weichai Lovol. Since then, in its capacity as a controlling shareholder of Weichai Lovol, Weichai Holdings had initiated and carried out reformation in various aspects within Weichai Lovol, including internal restructuring and industry positioning. Within a few months of such reformation, the management model and culture of Weichai Lovol has been streamlined and loss-making assets had been replaced with quality assets, and in turn, Weichai Lovol managed to gain an advantage in modern agricultural industry, which along with the promulgation of governmental policies in the PRC in favour of the agricultural industry, resulted in a significant improvement in the financial performance of Weichai Lovol in the second half of 2021.
2. In addition, two subsidiaries of Weichai Lovol which were historically operating at a significant loss, had been disposed of and/or wound up in the second half of 2021. This also contributed to the improvement of Weichai Lovol's financial performance for the year ended 31 December 2021.

Weichai Lovol is held as to approximately 39.31% by the Company and is currently accounted for as an associate of the Company. Upon completion of the Acquisition, the Company will hold approximately 62.00% of the total issued share capital of Weichai Lovol and Weichai Lovol will be accounted for as a subsidiary of the Company and the financial results of Weichai Lovol will be consolidated into the consolidated financial statements of the Company.

We also note that as disclosed in the Company's announcement dated 13 July 2021 regarding the acquisition of 39.31% shares in Weichai Lovol, the audited net asset value and net loss after taxation of Weichai Lovol as of 31 March 2021 was only approximately RMB780.8 million and RMB313,560,617.99 respectively.

Insofar as the Company is aware, the original cost of investment incurred by Weichai Holdings in respect of the Sale Shares amounted to approximately RMB631 million.

F. Reasons and benefits of the Transaction

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

Upon completion of the Acquisition, the Company will hold approximately 62.00% of the total issued share capital of Weichai Lovol and Weichai Holdings will hold approximately 37.31% of the total issued share capital of Weichai Lovol; Weichai Lovol will be accounted for as a subsidiary of the Company and the financial results of Weichai Lovol will be consolidated into the consolidated financial statements of the Company.

As mentioned above, Weichai Lovol and its subsidiaries are principally engaged in, among other things, the development and manufacture of agriculture machinery. Following the acquisition of approximately 39.31% of the share in Weichai Lovol in July 2021, the Company has deepened cooperation with Weichai Lovol in the agriculture machinery market, which has created the desired synergy effect. The Board is of the view that the Acquisition is in line with the Company's strategy to foster an overall solution for the high-end smart agriculture machinery market through utilising the Group's advantages in core technologies and powertrain in terms of engines, CVT, hydraulics and electronic controls, and making use of the competitive edge of end-user resources and product mix of Weichai Lovol, and in turn lead the agriculture machinery market towards further upgrades in terms of size, sophistication and intelligence. Moreover, in light of the significant improvement in the operational results of Weichai Lovol in recent years and the positive market outlook in the agriculture machinery segment, the Acquisition and the consolidation of Weichai Lovol in the consolidated financial statements of the Company following the Completion is expected to be beneficial to the strategic transformation of the Group and, in turn, the operational results and profitability of the Group and enhance return to the Shareholders.

In light of the above and taking into account Weichai Lovol's existing management model, recent year's performance and future prospects, and the fact that the relevant Valuation Report was prepared by a qualified independent valuer, the Directors (including the independent non-executive Directors) consider that the Acquisition is fair and reasonable, on normal commercial terms, and in the interests of the Company and its Shareholders as a whole. Although the Acquisition shall be regarded as an investing activity and not in the ordinary and usual course of business of the Group, the Directors (including the independent non-executive Directors) are of the view that such Acquisition will facilitate the vertical integration of upstream and downstream production chain and enable the Group to capture market opportunities, and is therefore beneficial to the long-term strategy and success of the Group.

G. Information of Weichai Holdings

Weichai Holdings is principally engaged in the management, investment and the provision of general services.

According to the Letter from the Board, 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 Shandong Provincial People's Government.

RECOMMENDATION

Having considered the principal factors and reasons referred to above, we are of the opinion that the Acquisition and the terms of the Share Transfer Agreement is on normal commercial terms, and although it is not in the ordinary and usual course of business of the Company, the Share Transfer Agreement has been subject to arm's length negotiation between the parties, 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 to approve the terms of the Acquisition and Share Transfer Agreement at the general meeting.

Yours faithfully,
For and on behalf of
Trinity Corporate Finance Limited
Joanne Pong
Responsible Officer

**Summary of Asset Valuation Report
on the Value of the Total Shareholders' Equity
of Weichai Lovol Heavy Industry Co., Ltd.
Involved in the Proposed Acquisition of the Equity Interest
by Weichai Power Co., Ltd.
Tian Xing Ping Bao Zi[2022] No. 0317**

Pan-China Assets Appraisal Co., Ltd. has been jointly engaged by Weichai Power Co., Ltd. and Weichai Group Holdings Limited to conduct a valuation on the market value of the total shareholders' equity of Weichai Lovol Heavy Industry Co., Ltd. involved in the proposed acquisition of the equity interest by Weichai Power Co., Ltd. as at 31 December 2021 using the asset-based approach and the income-based approach in an independent, objective and impartial manner in accordance with the provisions of relevant laws, administrative regulations and asset valuation standards as well as the necessary evaluation procedures. The asset valuation is reported as follows.

- I. Purpose of valuation: The purpose of the valuation is to provide value reference for the economic activity of the value of the total shareholders' equity of Weichai Lovol Heavy Industry Co., Ltd. involved in the proposed acquisition by Weichai Power Co., Ltd. of certain equity interest in Weichai Lovol Heavy Industry Co., Ltd. held by Weichai Group Holdings Limited, in accordance with the Meeting Minutes of Special Scheduling Meeting for Capital Operation Projects of Weichai Group Holdings Limited and the Meeting Minutes of Weichai Lovol Reorganisation Project of Weichai Power Co., Ltd.
- II. Valuation target: the value of the total shareholders' equity of Weichai Lovol Heavy Industry Co., Ltd. as at the Valuation Reference Date.
- III. Valuation scope: the audited total assets and liabilities of Weichai Lovol Heavy Industry Co., Ltd. as at the Valuation Reference Date.
- IV. Type of value: market value.
- V. Valuation Reference Date: 31 December 2021.
- VI. Valuation methodologies: asset-based approach and income-based approach.
- VII. Assumptions adopted in the valuation
 - (I) General assumptions:
 1. Assumption of trading: it is assumed that all the assets to be appraised are in trade, and the Valuer performed the valuation of the assets by simulating market with conditions such as the transaction conditions of the assets.
 2. Assumption of open market: assumption of open market is an assumption of the conditions of the market which assets are to enter and

the influence on the assets under such market conditions. The open market means fully developed and improved market conditions, and is a competitive market with voluntary buyers and sellers. In this market, buyers and sellers are equal in status and both have opportunities and time in acquiring ample market information; and all the transactions between them are made on a voluntary, rational, non-compulsory and unrestricted basis.

3. Assumption of continuous use: assumption of continuous use is an assumption of the conditions under which the assets are intended to enter the market and the status of assets under such market conditions. Firstly, it is assumed that the assets to be appraised are in use; secondly, it is assumed that such assets in use will continue to be used. Under the assumption of continuous use, the change of assets use and the best conditions for use of the assets are not taken into account. Therefore, the scope of use of the valuation results is restricted.
4. Assumption of going concern: it is an assumption for valuation made by taking the whole assets of the enterprise as the object of valuation. Namely, it is assumed that: the enterprise operates continually in pursuit of its operation objectives under its external environment as a business entity; the operators of the enterprise are responsible and capable of assuming liabilities; and the enterprise conducts lawful operation, and is able to acquire appropriate profits to maintain its capability to operate as a going-concern.
5. Assumption of accuracy of information: the Valuer assumes that the information and materials provided by the client and relevant parties on which the result of the valuation relies are trustworthy and has verified such information and materials in accordance with the valuation procedure to the extent necessary, but the Valuer does not make any promise for the truthfulness, legality, completeness of such information and materials.

(II) Assumptions in relation to the income-based approach:

1. There are no significant changes in the prevailing laws, regulations and policies of the PRC, no significant changes in the macro-economic conditions of the PRC and no significant changes in the political, economic and social environment in the regions where the parties to the Acquisition are located; there are no other force majeure or unforeseeable factors that may give rise to material adverse impact.
2. It is assumed that the operators of Weichai Lovol are responsible, and the management of Weichai Lovol is able to perform their duties.
3. Unless otherwise stated, it is assumed that Weichai Lovol fully complies with all relevant laws and regulations.

4. It is assumed that the accounting policies adopted in the future by Weichai Lovol are in all material aspects generally consistent with the accounting policies adopted in the compilation of the Valuation Report.
5. It is assumed that on the basis of Weichai Lovol's existing management approach and standard, the business scope and approach are in line with the current direction.
6. It is assumed that the cash flows of Weichai Lovol in the years covered by the Forecast are even cash inflow and cash outflow.
7. It is assumed that there are no material changes in the interest rates, exchanges rates, taxation benchmark and rates, policy levy, etc.
8. It is assumed that after the Valuation Reference Date, the research and development abilities and the advancement of technological edge of Weichai Lovol will remain at the current level.
9. It is assumed that the amount of the taxable income of Weichai Lovol will be generally consistent with the amount of its profits in its income-generating period in the future and that there are no adjustment events based on material perpetual difference or time difference.
10. It is assumed that the turnover status of accounts receivable and accounts payable of Weichai Lovol in its future income-generating period will remain similar to that in the past and that there will be no defaults on payment for goods that are materially different from the past.
11. It is assumed that the production and sale of Weichai Lovol for the period in the Forecast will remain balanced.
12. It is assumed that there are no material changes in the interest rates, exchanges rates, taxation benchmark and rates, policy levy, etc. According to the "Announcement on the Filing for the Second Batch of High and New Technology Enterprises Recognised in 2021 by Shandong Province"* (《關於對山東省2021年認定的第二批高新技術企業進行備案的公告》), Weichai Lovol has passed the recognition as a "High and New Enterprise"* (高新技術企業) again. Considering factors including the research and development capabilities and the level of research and development expenses, it is assumed that Weichai Lovol can retain its status as a recognised "High and New Technology Enterprise", so its future income tax rate is estimated to be 15%.
13. It is assumed that the investment, manufacture and sales of Weichai Lovol can be implemented in accordance with it plans.

14. It is assumed that the income, cost, and expense levels of Weichai Lovol in its perpetual period are consistent with those as of 2026.

The valuation results are based on the above assumptions. When the above assumptions are not valid, the valuation results will be significantly affected and will be no longer valid in general.

VIII. Valuation conclusion:

In the valuation, the Valuer used the asset-based approach and the income-based approach to evaluate the target, and after analysis, selected the valuation result using the income-based approach as the valuation conclusion in the end.

On the basis of the going concern assumption as at the Valuation Reference Date, the book value of the net assets of Weichai Lovol Heavy Industry Co., Ltd. amounted to RMB2,135,975,100, and the value of total equity of the shareholders of Weichai Lovol Heavy Industry Co., Ltd. amounted to RMB8,520,574,100, representing an appreciation of RMB6,384,599,000 and at an appreciation rate of 298.91%.

The income-based approach adopts the discounted cash flow approach. The cash flow caliber selected is the free cash flow of the enterprise. The total shareholders' equity is indirectly valued through the valuation of the overall enterprise value.

The value of total shareholders' equity was calculated by applying the appropriate discount rate to calculate the value of the overall operating assets of the enterprise based on the net free cash flow of the enterprise in the certain future years, adding the values of the surplus assets and the non-operating assets, then deducting interest-bearing debts.

(1) Basic Models

$E = V - D$ Formula One

$V = P + C_1 + C_2 + E'$ Formula Two

In the formulas above:

E: value of the total equity of shareholders;

V: overall enterprise value;

D: appraised value of interest-bearing liabilities;

P: appraised value of operating assets;

C_1 : appraised value of surplus assets;

C_2 : appraised value of non-operating net assets;

E' : appraised value of long-term equity investments (which are not included in the cash flow).

where P, appraised value of operating assets, in Formula Two is calculated using the formula below:

$$P = \sum_{t=1}^n [R_t \times (1+r)^{-t}] + \frac{R_{n+1}}{(r-g)} \times (1+r)^{-n} \quad \text{Formula Three}$$

The first half of the formula above is the value for the specific forecast period, and the latter half is the value for the perpetual period (the final value)

In Formula Three:

R_t : free cash flow of the enterprise for tranche t in the specific forecast period;

t: number of tranches in the specific forecast period, i.e. 1, 2, 3, ..., n;

r: discount rate;

R_{n+1} : free cash flow of the enterprise for the perpetual period;

g: growth rate for the perpetual period, and in this valuation, $g=0$;

n: the last year for the specific forecast period.

(2) Determination of Key Parameters in the Model

1) Determination of expected income

Free cash flow is adopted as the quantitative indicator for the enterprise's expected income in this valuation.

Free cash flow is the entire cash flow after payment of operation costs and income tax but before cash payment to those who claim against the enterprise. The calculation formula is as follows:

Free cash flow of the enterprise = net profit after tax + depreciation and amortisation + interest expense \times (1 – tax rate T) – capital expenditure – working capital movement

I. The amounts of expected income are as follows:

Unit: RMB ten thousand

Types of Operation	2022	2023	2024	2025	2026	2027 and perpetual period
Sub-total of revenue from principal operations	1,616,339.04	1,789,474.68	1,953,377.56	2,151,524.03	2,154,853.38	2,154,853.38
Other revenue	14,987.41	14,987.41	14,987.41	14,987.41	14,987.41	14,987.41
Revenue	1,631,326.45	1,804,462.09	1,968,364.96	2,166,511.44	2,169,840.79	2,169,840.79

II. Analysis of products, income and expenses

I. Analysis of revenue

The income of Weichai Lovol is classified into segments of agricultural equipment, agricultural machineries, vehicles and accessories, among which agricultural equipment includes harvest machinery, navigation equipment and tractor business, and vehicles include motorcycles, electric tricycles, tricycles and off-highway four-wheelers.

(I) Forecast and analysis of sales volume and price of agricultural equipment and agricultural machineries

1. Harvest machinery business involves wheat harvesters, corn harvesters and other small-scale harvest machineries

Wheat harvesters: In recent years, the subsidy for agricultural machinery has been relatively stable with few changes in the subsidy amount for wheat harvesters and is expected to remain stable in the next three years. The future development trend of Weichai Lovol will be to maintain the reliability advantage of Weichai Lovol's products by further focusing on development of resources or optimisation of medium-sized and prototype longitudinal-axial flow products to improve the longitudinal-axial flow product mix, so as to maintain the competitive strength of its products.

Corn harvesters: The corn harvester market has entered a period of rapid growth since 2012. In recent years, the market sales of the corn harvesters of Weichai Lovol have been increasing yearly with a gradually increasing market share. Considering that customers may purchase machines in advance as a result of the impact of the China IV upgrade by the end of 2022, the market will have a significant growth. As users of corn harvests highly overlap with that of wheat harvesters, the advantages of Weichai Lovol in terms of channels and services in the cross-district market will gradually emerge following the increase of cross-district users.

2. Navigation is a new business, and the development of intelligent agriculture is the future trend. Autonomous driving will be recognized by more customers and will present a growing trend in the future. The navigation system of Weichai Lovol is an intelligent driving system with the relevant replacement products classified into pre-installation and post-installation products. Currently, the navigation systems are mostly used on tractors. Weichai Lovol is upgrading the replacement products and after adjusting its product mix, with the upgrading of farmers' standards and the development of smart agriculture, the sales volume of products from this segment shall have a relatively significant increase.
3. Tractors: Following the strategic restructuring of Weichai Lovol by Weichai in 2021 and under the resource advantages of provincial state-owned enterprises such as Weichai Holding, Weichai Power, Heavy Duty Truck Group and Heavy Industry Group, the resource synergy advantage has come into play. Under the dual effects of hardware power and soft power of Weichai Group, together with the strong investment in research and development expenses currently, the tractors of Weichai Lovol will be more intelligent and high-end, and its market share in the future will also be further increased.

According to the sales data of Weichai Lovol during the historical period, the historical prices of harvest machinery had been increasing, which was mainly attributable to the adjustment in product structure of the harvest machineries. As the performance of the harvest machinery products improved, the price increased. According to the communication with Weichai Lovol and with reference to the sales price in 2021, it is expected that the sales price of the harvest machineries will not have a significant change in the future.

Navigation is a new product. According to the communication with Weichai Lovol, the unit price of navigation in the future is forecasted based on the 2021 level.

Tractors are traditional products with relatively stable prices. It is expected that the proportion of high-powered products will be greater in the future. As communicated

with Weichai Lovol and with reference to the price in 2021, there will not be any significant adjustment in the price of tractor products either.

(II) Forecast and analysis of sales volume and price of vehicle business

Vehicles are mostly motor tricycles, electric tricycles, tricycles and off-highway four-wheelers. As communicated with Weichai Lovol, the vehicle business market in the future will maintain a relatively steady development with stable sales volume.

Forecast of sales price of vehicles: In the past three years from 2019 to 2021, there were increases in prices of motor tricycles, electric vehicles and tricycles in a different extent over the past three years. The forecast period assumes that there will not be a significant increase in raw materials and therefore the sales price will be based on the level of 2021.

(III) Accessories and other operations

This segment is mainly for the accessories of agricultural equipment and vehicles, which are the principal operations. This forecast is based on the proportion of accessories in the principal operations.

(IV) Revenue from other operations

This part of revenue is mainly the gains on disposal of waste materials, which is forecasted with reference to the average value of the past three years.

II. Analysis of the cost of principal operations

Based on the business development of each segment of Weichai Lovol and the analysis of the cost-to-revenue ratio of each segment, the cost of sales will be calculated based on this ratio in the future. For products with little change in cost-to-revenue ratio in the past three years, the forecast is based on the average cost-to-revenue ratio in the past three years. For the products with gradually increasing or decreasing cost-to-revenue ratio in the historical period and the changes were mostly in product structure or product specification as analyzed, the cost-to-revenue ratio of these products will be forecasted with reference to the level in 2021. For navigation products, as communicated with relevant personnel of Weichai Lovol, it is known that the cost of normal production of the navigation accounts for approximately 0.93% of the revenue and this forecast is based on the proportion.

III. Forecast of distribution and selling expenses

The distribution and selling expenses of Weichai Lovol mainly include staff remuneration, business entertainment expenses, travel expenses, depreciation expenses, transportation expenses, promotion expenses, sales rebate, after-sales services expenses, consulting expenses, material consumptions, office expenses, communication expenses, others and etc. Based on the analysis of the historical annual distribution and selling expense data of Weichai Lovol, the forecast is made according to the proportion accounting in the revenue from principal operations in previous years.

IV. Forecast and analysis of general and administrative expenses

The general and administrative expenses of Weichai Lovol mainly include staff remuneration, amortisation of intangible assets, property insurance premium, depreciation expenses, lease expenses, office expenses, travel expenses, consulting expenses, business entertainment expenses, amortisation of low-value consumables, environmental construction expenses, litigation expenses, repair expenses, publicity expenses, transportation expenses, water and electricity expenses, membership expenses, safety production expenses, heating and cooling expenses, labor protection expenses, communication expenses, public security management expenses, conference expenses, consumption of organic materials, relocation expenses, employment guarantee for the disabled, others and etc. Based on the analysis of the historical annual general and administrative expense data of Weichai Lovol, the forecast is made according to the proportion accounting in the revenue during the historical period.

V. Forecast and analysis of research and development expenses

The research and development expenses of Weichai Lovol mainly include staff remuneration, travel expenses, testing costs, outsourcing expenses, amortisation of intangible assets, depreciation expenses, other expenses and etc. Based on the analysis of the historical annual research and development expense data of Weichai Lovol, the forecast is made according to the proportion of expenses during the historical period.

VI. Forecast of finance expenses

Finance expenses during the historical period include interest expenses, interest income and bank settlement handling fees and others. The handling fees in the future are predicted according to the proportion of revenue in historical years. For interest income, as there was surplus in cash and cash equivalent

on the Valuation Reference Date, it is handled as non-operating assess after deducting the interest income of the portion and borrowings to connected units. This portion of interest income is calculated based on the cash and cash equivalent for the forecast period multiplied by the 1-year deposit interest rate and interest expense is calculated based on the current rate level of external borrowings.

2) Determination of income period

Income period in appraising enterprise value normally refers to the number of years in the future in which the enterprise can generate income. To derive a reasonable forecast of future income, the income period of an enterprise can be categorised as definite and indefinite according to the characteristics of production and operation of an enterprise and relevant laws, regulations, contracts and agreements.

As communicated with management of Weichai Lovol, Weichai Lovol has no plan to terminate its operation and an indefinite period is therefore adopted.

3) Determination of discount rate

There are various methods and ways to determine the discount rate. Based on the principle of consistency between income amount and discount rate, the income amount is valued using the free cash flow of the enterprise in this valuation, and thus the weighted average cost of capital (WACC) is selected to determine the discount rate.

4) Determination of appraised value of interest-bearing liabilities

The interest-bearing liabilities include long-term and short-term borrowings of the enterprise, which are determined based on the market value.

5) Determination of appraised value of surplus assets and non-operating assets (liabilities)

Surplus assets refer to assets that are not directly related to the income of the enterprise and in excess of the amount needed to operate the enterprise, which generally refer to excess cash and cash equivalent. The surplus assets of Weichai Lovol as at the Valuation Reference Date comprise cash and cash equivalent, being wealth management products subscribed at banks, and the appraised value of which amounted to approximately RMB1,854,653,700 in total.

Non-operating assets refer to assets that are not directly related to the income of the enterprise and are not included in the scope of income forecast. Separate valuation is carried out for such assets. The non-operating assets include: receivables of the assets that have been disposed of, capital expenditures in prepaid accounts, dividends receivable, land transfer fees, equipment receivables, construction receivables, litigation expenses, inventories that are obsolete or unavailable to use and sell, pledged property, pledged equity, deductible input tax, pre-paid income tax, prepaid tariffs, entrusted loans, idle properties that have been leased out, obsolete and idle equipment, and deferred tax assets, etc.

The non-operating liabilities include: interests derived from short-term loans, equipment payables, construction payables, project quality guarantee deposits, notes payable of financing nature, lease expenses of investment properties, part of contract liabilities, property tax payable on the pledged properties, part of the other payables, payables of the assets that have been disposed of, accrued after-sale expenses, long-term payroll payables and deferred income, etc.

Breakdowns of the non-operating assets are as follows:

Unit: RMB ten thousand

	Book value	Appraised value
Non-operating assets	411,136.66	408,587.09
Non-operating liabilities	656,908.80	649,241.51
Non-operating net assets		-240,654.42

6) Determination of appraised value of long-term equity investment

The valuation of long-term equity investments is determined based on appraised value of the enterprise using the valuation approach. As the long-term equity investment in Shandong Mengwo Transmission Co., Ltd. ("**Shandong Mengwo**"), an associate of Weichai Lovol, has been transferred out after the Valuation Reference Date, the appraisal value of Shandong Mengwo was determined in accordance with the consideration of equity transfer which was approximately RMB40,297,100. As at 14 February 2022, the disposal of Weichai Lovol's interest in 33.88% of the equity interest in Shandong Mengwo has been completed. Thus, in respect of the valuation of the long-term equity investment in Shandong Mengwo, the amount of the consideration for the equity transfer (being approximately RMB40,297,100) has been adopted as the appraisal value of Weichai Lovol's long-term equity investments in Shandong Mengwo.

The income-based approach is to evaluate the value of the enterprise by discounting expected income. It considers not only the assets measured according to the accounting principles, but also the resources beneficially owned or controlled by the enterprise that cannot be reflected in the balance sheet, such as customer resources and brands owned by the enterprise, established sales network and the R&D team of the enterprise, and the contribution of these resources to the enterprise is reflected in the net cash flow of the enterprise, such that the valuation conclusions by using the income approach can better reflect the overall growth potential and profitability of the enterprise.

The Valuer is of the view that the value of an asset is usually not based on its replacement cost but market participants' expectations about its future income. After conducting investigation on the financial position of the valuation target and analysis of its operating status and considering the asset valuation target, its purpose, and applicable types of value and making comparative analysis, the Valuer is of the view that the valuation conclusions by using the income-based approach can reflect the intrinsic value of the enterprise in a more comprehensive and reasonable way. Therefore, the valuation results using the income-based approach are adopted as the final conclusions of this valuation.

The financial data for the year 2021 referred to in the asset valuation is derived from the audit report of Hexin Zhuanzi (2022) No. 000049 with standard unqualified opinions issued by Hexin Accountants LLP.

(3) Key parameters adopted

Based on the above principles, below are the key parameters adopted in the discounted cash flow calculation as at the Valuation Reference Date:

Discount rate: 10.83%

Overall enterprise value: $= P + C1 + C2 + E'$

whereas:

P: appraised value of operating assets;

C1: appraised value of surplus assets;

C2: appraised value of non-operating net assets;

*E': appraised value of long-term equity investments
(which are not included in the cash flow).*

$$\begin{aligned}
 &= \text{RMB}8,038,243,200 + \text{RMB}1,854,653,700 - \\
 &\quad \text{RMB}2,406,544,200 + \text{RMB}1,229,856,900 \\
 &= \text{RMB}8,716,209,600
 \end{aligned}$$

Appraised value of interest-bearing liabilities: RMB195,635,500

Value of the total equity of shareholders: = $V - D$

whereas:

V: overall enterprise value

*D: appraised value of
interest-bearing liabilities*

= RMB8,716,209,600 –

RMB195,635,500

= RMB8,520,574,100

We particularly emphasise that the valuation report is for the sole purpose of value reference for the proposed acquisition of the equity interest in Weichai Lovol Heavy Industry Co., Ltd. by Weichai Power Co., Ltd., and shall not replace the transaction price of the equity interest to be determined by the parties to the transaction.

This report together with the conclusions are only intended to be used for the valuation purpose as described herein and for no other purposes.

In accordance with relevant regulations of the PRC, the validity period for use of the valuation conclusions is 1 year commencing on the Valuation Reference Date, i.e. 31 December 2021, and ending on 30 December 2022.

The above summary is extracted from the relevant valuation report. Please read the full text of the valuation report to learn about the detailed information of the relevant valuation and reasonable understanding of the relevant valuation conclusions and pay particular attention to the special notes.

The following is the text of a report received from Deloitte Touche Tohmatsu Certified Public Accountants LLP for the purposes of incorporation in this circular.

INDEPENDENT ASSURANCE REPORT ON THE CALCULATIONS OF DISCOUNTED FUTURE ESTIMATED CASH FLOWS IN CONNECTION WITH THE VALUATION OF 22.69% SHARES IN WEICHAI LOVOL

TO THE DIRECTORS OF WEICHAI POWER CO., LTD.

We have examined the calculations of the discounted future estimated cash flows on which the valuation prepared by Pan-China Assets Appraisal Co., Ltd. (北京天健興業資產評估有限公司) dated 10 March 2022, of a 22.69% shares in Weichai Lovol as at 31 December 2021 (the “**Valuation**”) is based. Weichai Lovol is a company incorporated in the People’s Republic of China whose principal assets are inventories, cash, property, plant and equipment. The Valuation based on the discounted future estimated cash flows is regarded as a profit forecast under Rule 14.61 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “**Listing Rules**”) and will be included in an announcement dated 18 April 2022 to be issued by Weichai Power Co., Ltd. (the “**Company**”) in connection with the acquisition of 22.69% shares in Weichai Lovol Industry Co., Ltd. (the “**Announcement**”).

Directors’ Responsibility for the Discounted Future Estimated Cash Flows

The directors of the Company are responsible for the preparation of the discounted future estimated cash flows in accordance with the bases and assumptions determined by the directors and set out in the Announcement (the “**Assumptions**”). This responsibility includes carrying out appropriate procedures relevant to the preparation of the discounted future estimated cash flows for the Valuation and applying an appropriate basis of preparation; and making estimates that are reasonable in the circumstances.

Our Independence and Quality Control

We have complied with the independence and other ethical requirements of the “Code of Ethics for Professional Accountants” issued by the Hong Kong Institute of Certified Public Accountants (the “**HKICPA**”), which is founded on fundamental principles of integrity, objectivity, professional competence and due care, confidentiality and professional behavior.

Our firm applies Hong Kong Standard on Quality Control 1 “Quality Control for Firms that Perform Audits and Reviews of Financial Statements, and Other Assurance and Related Services Engagements” issued by the HKICPA and accordingly maintains a comprehensive system of quality control including documented policies and procedures regarding compliance with ethical requirements, professional standards and applicable legal and regulatory requirements.

Reporting Accountants’ Responsibility

Our responsibility is to express an opinion on whether the calculations of the discounted future estimated cash flows have been properly compiled, in all material respects, in accordance with the Assumptions on which the Valuation is based and to report solely to you, as a body, as

required by Rule 14.62(2) of the Listing Rules, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

Our engagement was conducted in accordance with Hong Kong Standard on Assurance Engagements 3000 (Revised) “Assurance Engagements Other Than Audits or Reviews of Historical Financial Information” issued by the HKICPA. This standard requires that we comply with ethical requirements and plan and perform the assurance engagement to obtain reasonable assurance on whether the discounted future estimated cash flows, so far as the calculations are concerned, have been properly compiled in accordance with the Assumptions. Our work was limited primarily to making inquiries of the Company’s management, considering the analyses and assumptions on which the discounted future estimated cash flows are based and checking the arithmetic accuracy of the compilation of the discounted future estimated cash flows. Our work does not constitute any valuation of Weichai Lovol.

Because the Valuation relates to discounted future estimated cash flows, no accounting policies of the Company have been adopted in its preparation. The Assumptions include hypothetical assumptions about future events and management actions which cannot be confirmed and verified in the same way as past results and these may or may not occur. Even if the events and actions anticipated do occur, actual results are still likely to be different from the Valuation and the variation may be material. Accordingly, we have not reviewed, considered or conducted any work on the reasonableness and the validity of the Assumptions and do not express any opinion whatsoever thereon.

Opinion

Based on the foregoing, in our opinion, the discounted future estimated cash flows, so far as the calculations are concerned, have been properly compiled, in all material respects, in accordance with the Assumptions.

Deloitte Touche Tohmatsu Certified Public Accountants LLP

18 April 2022



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)

18 April 2022

The Listing Division
The Stock Exchange of Hong Kong Limited
12th Floor, Two Exchange Square,
8 Connaught Place,
Central, Hong Kong

Dear Sirs,

DISCLOSEABLE CONNECTED TRANSACTION**ACQUISITION OF 22.69% SHARES
IN WEICHAI LOVOL**

We refer to the announcement of the Company dated 18 April 2022 (the “**Announcement**”). Unless the context otherwise requires, terms defined in the Announcement shall have the same meanings in this letter when used herein.

We refer to the valuation report dated 10 March 2022 issued by 北京天健興業資產評估有限公司 (Pan-China Assets Appraisal Co., Ltd.), an independent professional valuer in the PRC (the “**Valuer**”) in relation to the valuation (the “**Valuation**”) of 潍柴雷沃重工股份有限公司 (Weichai Lovol Heavy Industry Co., Ltd.*) (“**Weichai Lovol**”) as at the Valuation Reference Date. As the Valuation adopts the income approach, it is regarded as a profit forecast under Rule 14.61 of the Listing Rules (the “**Forecast**”).

We have discussed with the Valuer about different aspects including the basis and assumptions upon which the Valuation has been prepared, and reviewed the Valuation prepared by the Valuer for which the Valuer is responsible. We have also engaged Deloitte to review and report on the arithmetical accuracy of the calculations of the discounted cash flows forecast underlying the Forecast, and considered the report from Deloitte as set out in Appendix I to the Announcement.

On the basis of the foregoing, in accordance with the requirements under Rule 14.62(3) of the Listing Rules, we confirm that the Forecast has been made after our due and careful enquiry.

Yours faithfully,
For and on behalf of the Board
Weichai Power Co., Ltd.
Tan Xuguang
Chairman and CEO

1. RESPONSIBILITY STATEMENT

This circular, for which the Directors collectively and individually accept full responsibility, includes particulars given in compliance with the Listing Rules for the purpose of giving information with regard to the Company. The Directors, having made all reasonable enquiries, confirm that to the best of their knowledge and belief the information contained in this circular is accurate and complete in all material respects and not misleading or deceptive, and there are no other matters the omission of which would make any statement herein or this circular misleading.

2. DISCLOSURE OF INTERESTS

As at the Latest Practicable Date, the interests and short positions of the Directors and Supervisors in the shares, underlying shares and debentures of the Company notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO, or as recorded in the register required to be kept by the Company under section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Companies (as if it were applicable also to the Supervisors of the Company) were as follows:

Interests in the Shares of the Company

Name of Director	Capacity	Number of A Shares held	Number of H Shares held	Percentage of the issued share capital of the Company
Tan Xuguang	Beneficial owner	58,842,596 (<i>Note 1</i>)	–	0.67%
Zhang Quan	Beneficial owner	13,684,324 (<i>Note 1</i>)	–	0.16%
Xu Xinyu	Beneficial owner	13,684,324 (<i>Note 1</i>)	–	0.16%
Sun Shaojun	Beneficial owner	13,684,324 (<i>Note 1</i>)	–	0.16%
Yuan Hongming	Beneficial owner	1,000,440	–	0.011%
	Interest held by spouse	<u>444</u>	–	<u>0.000005%</u>
		<u>1,000,884</u>	–	<u>0.011%</u>
Yan Jianbo	Beneficial owner	1,097,904	–	0.013%
Wen Daocai	Beneficial owner	21,940	–	0.0003%

Name of Supervisor	Capacity	Number of A Shares held	Number of H Shares held	Percentage of the issued share capital of the Company
Lu Wenwu	Beneficial owner	600,000	–	0.0069%
Wu Hongwei	Beneficial owner	4,789,516	–	0.05%

Notes:

1. These shares were derived from the previous domestic shares of the Company. The domestic shares were ordinary shares issued by the Company, with a Renminbi-denominated par value of RMB1.00 each, which were subscribed for and paid up in Renminbi or credited as fully paid up. These shares became “A” shares of the Company upon the “A” share listing of the Company on the Shenzhen Stock Exchange.
2. All the shareholding interests listed in the above table are “long” position.
3. The percentage shareholding is calculated on the basis of 8,726,556,821 issued shares of the Company as at the Latest Practicable Date (comprising 6,783,516,821 A Shares and 1,943,040,000 H Shares).

Interests in the shares of associated corporations of the Company

Name of Director	Name of associated corporation	Nature of interest	Class and number of securities interested or deemed to be interested	Approximate percentage interest in the entire issued share capital of associated corporation
Gordon Riske (Note)	KION Group AG (“KION”)	Beneficial owner	146,460 ordinary shares	0.11%
		Interest held by spouse	93,940 ordinary shares	0.07%
			240,400 ordinary shares	0.18%
Jiang Kui	Shantui Engineering Machinery Co., Ltd.	Beneficial owner	42,697 ordinary shares	0.0028%

Note: Gordon Riske, a non-executive Director, was the beneficial owner of 146,460 ordinary shares in KION and he was also deemed to be interested in 93,940 shares in KION which were beneficially held by his wife, Ms. Benita Riske.

Save as disclosed above, as at the Latest Practicable Date, none of the Directors, the chief executive nor the supervisors had an interest or short position in the shares, underlying shares or debentures of the Company or any of its associated corporations that was notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO, or was recorded in the register required to be kept pursuant to Section 352 of the SFO, or as otherwise notified to the Company pursuant to the Model Code for Securities Transaction by Directors of Listed Issuers.

The register of substantial Shareholders maintained by the Company pursuant to Section 336 of the SFO (including interests filed with the Stock Exchange) shows that as at the Latest Practicable Date, the following persons (other than the Directors, the chief executive and the supervisors) had the following interests and short positions (if any) in the shares and underlying shares of the Company:

Name	Capacity	Long/Short position	Percentage of share capital comprising		Percentage of share capital comprising		Percentage of total issued share capital
			Number of A Shares	only A Shares	Number of H Shares	only H Shares	
Weichai Group Holdings Limited	Beneficial owner	Long	1,422,550,620	20.97%	–	–	16.30%
Shandong Heavy Industry Group Co., Ltd. (Note 1)	Interest of corporation controlled by you	Long	1,422,550,620	20.97%	–	–	16.30%
Brandes Investment Partners, LP (Note 3)	Investment manager	Long	–	–	78,578,612	16.18%	3.60%
Lazard Emerging Markets Equity Portfolio (Note 4)	Investment manager	Long	–	–	23,707,500	5.86%	1.30%
Barclays PLC (Note 3)	Person having a security interest in shares	Long	–	–	525,552	0.11%	0.02%
	Interest of corporation controlled by you	Long	–	–	25,453,050	5.24%	1.17%
					<u>25,978,602</u>	<u>5.35%</u>	<u>1.19%</u>
	Interest of corporation controlled by you	Short	–	–	24,102,475	4.96%	1.10%

Name	Capacity	Long/Short position	Number of A Shares	Percentage of share capital comprising only A Shares	Number of H Shares	Percentage of share capital comprising only H Shares	Percentage of total issued share capital
Morgan Stanley (Note 2)	Interest of corporation controlled by you	Long	–	–	49,335,508	5.08%	1.13%
	Interest of corporation controlled by you	Short	–	–	42,078,545	4.33%	0.96%
Lazard Asset Management LLC	Investment manager	Long	–	–	328,810,940	16.92%	3.77%
Schroders Plc	Investment manager	Long	–	–	224,347,854	11.55%	2.57%
Citigroup Inc.	Interest of corporation controlled by you	Long	–	–	2,810,416	0.14%	0.32%
	Approved lending agent	Long	–	–	135,491,501	6.97%	1.55%
					<u>138,301,917</u>	<u>7.11%</u>	<u>1.58%</u>
	Interest of corporation controlled by you	Short	–	–	1,902,788	0.09%	0.02%

Notes:

1. Shandong Heavy Industry Group Co., Ltd., a subsidiary of State-owned Assets Supervision and Administration Commission of Shandong Province, held the entire share capital of Weichai Group Holdings Limited (formerly known as Weifang Diesel Engine Works).
2. The number of H shares reported above held by the relevant substantial shareholder does not take into consideration the Company's bonus share issuance on 21 July 2017 as there is no disclosure of interest obligation under the SFO where there is no change in percentage of shareholdings for a substantial shareholder.
3. The number of H shares reported above held by the relevant substantial shareholder does not take into consideration the Company's bonus share issuance on 20 August 2015 and 21 July 2017 as there is no disclosure of interest obligation under the SFO where there is no change in percentage of shareholdings for a substantial shareholder.
4. The number of H shares reported above held by the relevant substantial shareholder does not take into consideration the Company's bonus share issuance on 17 August 2012, 20 August 2015 and 21 July 2017 as there is no disclosure of interest obligation under the SFO where there is no change in percentage of shareholdings for a substantial shareholder.

Save as disclosed above, the Company had not been notified of any other relevant interests or short positions in the issued share capital of the Company as at the Latest Practicable Date.

As at the Latest Practicable Date, so far as is known to the Directors, the following Directors held offices in the substantial Shareholders set out above:

Name of Director	Positions held in Weichai Holdings	Positions held in Shandong Heavy Industry
Tan Xuguang	Chairman	Chairman
Jiang Kui	–	General manager
Zhang Quan	Director	–
Xu Xinyu	Deputy chairman	–
Sun Shaojun	Director	Deputy general manager

3. ARRANGEMENTS AND MATTERS CONCERNING DIRECTORS

- (a) None of the Directors has entered into any service contract with the Group, which is not expiring or determinable by the Group within one year without payment of compensation (other than the payment of statutory compensation).
- (b) As at the Latest Practicable Date, none of the Directors was interested, directly or indirectly, in any assets which, since 31 December 2021, being the date to which the latest published audited consolidated financial statements of the Group were made up, had been acquired or disposed of by or leased to any member of the Group, or were proposed to be acquired or disposed of by or leased to any member of the Group.
- (c) As at the Latest Practicable Date, none of the Directors was materially interested in any contract or arrangement subsisting at the Latest Practicable Date and entered into by the Group, and which was significant in relation to the business of the Group.
- (d) As at the Latest Practicable Date, save for the directorship of Mr. Zhang Quan in 北汽福田汽車股份有限公司 (Beiqi Foton Motor Co., Ltd.) (“**Beiqi Foton**”), none of the Directors or their respective associates had any interest in a business which competed or might compete with the business of the Company. The Company has an approximately 1.22% interest in the shares of Beiqi Foton. Beiqi Foton is also a customer of the Company’s diesel engines. Beiqi Foton is engaged in the production of, inter alia, heavy-duty vehicles/trucks.

4. MATERIAL ADVERSE CHANGE

The Directors are not aware of any material adverse change in the financial or trading position of the Group since 31 December 2021, the date to which the latest audited consolidated financial statements of the Group were made up.

5. EXPERT

- (a) The following is the qualification of the expert which has given opinion or advice which is contained in this circular:

Name	Qualification
Trinity Corporate Finance Limited	A corporation licensed to carry out regulated activity type 6 (advising on corporate finance) under the SFO
北京天健興業資產評估有限公司 (Pan-China Assets Appraisal Co., Ltd.)	An independent professional valuer in the PRC
Deloitte Touche Tohmatsu Certified Public Accountants LLP	Certified public accountants

- (b) As at the Latest Practicable Date, none of the Independent Financial Adviser, the Valuer and Deloitte had any shareholding in the Company or any right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in any member of the Group, nor did they have any interest, direct or indirect, in any assets which had, since the date to which the latest published audited consolidated financial statements of the Group were made up, been acquired or disposed of by or leased to any member of the Group, or were proposed to be acquired or disposed of by or leased to any member of the Group.
- (c) Each of the Independent Financial Adviser, the Valuer and Deloitte has given and has not withdrawn its written consent to the issue of this circular with the inclusion herein of its letter, report and/or opinion and references to its name in the forms and contexts in which they appear. The letter, report and/or opinion of each of the Independent Financial Adviser, the Valuer and Deloitte contained herein was issued on 16 May 2022, 10 March 2022 and 18 April 2022, respectively, and was made for incorporation in this circular.

6. GENERAL

In the event of inconsistency, the English text of this circular shall prevail over the Chinese text.

7. DOCUMENTS ON DISPLAY

A copy of the Share Transfer Agreement will be published on the websites of the Stock Exchange (<http://www.hkexnews.hk>) and the Company (<http://www.weichaipower.com>) from the date of this circular up to and including the date of the EGM.

NOTICE OF EGM



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)

NOTICE OF EXTRAORDINARY GENERAL MEETING OF THE SHAREHOLDERS OF WEICHAI POWER CO., LTD.

NOTICE IS HEREBY GIVEN that an extraordinary general meeting (the “EGM”) of Weichai Power Co., Ltd. (the “**Company**”) will be held at the Company’s conference room at 197, Section A, Fu Shou East Street, High Technology Industrial Development Zone, Weifang, Shandong Province, the PRC on 31 May 2022 at 2:50 p.m. for the purposes of considering and, if thought fit, approving the matters set out below. Unless the context otherwise requires, terms defined in the circular to the shareholders of the Company dated 16 May 2022, of which this notice forms part (the “**Circular**”) shall have the same meaning when used herein.

To consider and, if thought fit, approve the following resolution as an ordinary resolution:

“**THAT** the Share Transfer Agreement dated 18 April 2022 referred to in the “Letter from the Board” contained in the Circular and the transactions contemplated thereunder be and are hereby approved.” (Note 1)

By Order of the Board of Directors
Weichai Power Co., Ltd.
Hu Yunyun
Company Secretary

Hong Kong, 16 May 2022

Notes:

- (A) The Company will not process registration of transfers of H shares (being overseas listed foreign shares and ordinary shares) in the share capital of the Company with a Renminbi denominated par value of RMB1.00 each, which are subscribed and/or paid for in Hong Kong dollars and listed on The Stock Exchange of Hong Kong Limited (“**H Shares**”) from 28 May 2022 to 31 May 2022 (both days inclusive). Holders of H Shares whose names appear on the register of H Shares kept at Computershare Hong Kong Investor Services Limited on 31 May 2022 are entitled to attend and vote at the EGM following completion of the registration procedures. To qualify for attendance and voting at the EGM, documents on transfers of H Shares of the Company, accompanied by the relevant share certificates, must be lodged with the Company’s H-Share Registrar, not later than 4:30 p.m. on 27 May 2022. The address of the Company’s H-Share Registrar is as follows:

Computershare Hong Kong Investor Services Limited
Shops 1712–1716, 17th Floor, Hopewell Centre
183 Queen’s Road East
Wanchai
Hong Kong

NOTICE OF EGM

- (B) Each holder of H Shares of the Company entitled to attend and vote at the EGM may, by completing the form of proxy of the Company, appoint one or more proxies to attend and vote at the EGM on his/her behalf. A proxy need not be a shareholder of the Company. With respect to any shareholder who has appointed more than one proxy, the proxy holders may only vote on a poll.
- (C) Holders of H Shares of the Company must use the form of proxy of the Company for appointing a proxy and the appointment must be in writing. The form of proxy must be signed by the relevant shareholder or by a person duly authorised by the relevant shareholder in writing (a “**power of attorney**”). If the form of proxy is signed by the person authorised by the relevant shareholder as aforesaid, the relevant power of attorney and other relevant documents of authorisation (if any) must be notarised. If a corporate shareholder appoints a person other than its legal representative to attend the EGM on its behalf, the relevant form of proxy must be affixed with the company seal/chop of the corporate shareholder or duly signed by its director or any other person duly authorised by that corporate shareholder as required by the Articles of Association of the Company.
- (D) To be valid, the form of proxy and the relevant notarised power of attorney (if any) and other relevant documents of authorisation (if any) as mentioned in Note (C) above must be delivered to the Company’s H-Share Registrar, Computershare Hong Kong Investor Services Limited (address: 17M Floor, Hopewell Centre, 183 Queen’s Road East, Wanchai, Hong Kong), not less than 24 hours before the time appointed for the EGM.
- (E) Each holder of A shares (being ordinary shares) in the share capital of the Company with a Renminbi denominated par value of RMB1.00 each, which are traded in Renminbi and listed on the Shenzhen Stock Exchange (“**A Shares**”) who is entitled to attend and vote at the EGM may also, by completing the form of proxy of the Company, appoint one or more proxies to attend and vote at the EGM on his behalf. A proxy need not be a shareholder of the Company. Notes (B) and (C) above also apply to the holders of A Shares of the Company, except that, to be valid, the form of proxy and the relevant power of attorney (if any) and other relevant documents of authorisation (if any) must be delivered to the Secretary to the board of Directors of the Company not less than 24 hours before the time appointed for the EGM. The address of the Secretary to the board of Directors of the Company is as follow:
- The office of the Board of Directors
197, Section A, Fu Shou East Street
High Technology Industrial Development Zone
Weifang
Shandong Province
The People’s Republic of China
Postal Code: 261061
Telephone No.: 86 (536) 819 7069
Facsimile No.: 86 (536) 819 7073
- (F) A shareholder or his/her proxy should produce proof of identity when attending the EGM. If a corporate shareholder’s legal representative or any other person authorised by the board of directors or other governing body of such corporate shareholder attends the EGM, such legal representative or other person shall produce his/her proof of identity, and proof of designation as legal representative and the valid resolution or authorisation document of the board of directors or other governing body of such corporate shareholder (as the case may be) to prove the identity and authorisation of that legal representative or other person.
- (G) Any proposal to appoint any person to the office of director of the Company at the EGM shall be given in writing and, notice in writing by that person of his consent to be elected as director shall be, lodged at the registered office of the Company at 197, Section A, Fu Shou East Street, High Technology Industrial Development Zone, Weifang, Shandong Province, the People’s Republic of China. The period for lodgement of such notices shall commence on (and include) the day after the date of this notice of the EGM and end on (and exclude) the date that is seven (7) days before the date of the EGM.
- (H) The EGM is expected to last for not more than half a day. Shareholders who attend the EGM shall bear their own travelling and accommodation expenses.

NOTICE OF EGM

(I) Weichai Holdings and its associates will abstain from voting at the EGM in respect of this resolution.

As at the date of this notice, 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.