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潍柴動力股份有限公司

WEICHAI POWER CO., LTD.

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

(Stock Code: 2338)

CONTINUING CONNECTED TRANSACTION

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References are made to the Company's announcement dated 18 April 2022 and the Company's circular dated 16 May 2022 in respect of the acquisition of approximately 22.69% shares of Weichai Lovol by the Company.

As disclosed in the poll results announcement of the Company dated 31 May 2022, the independent Shareholders of the Company has approved the Acquisition on 31 May 2022, following which the completion of the Acquisition occurred on 14 June 2022. Following the completion of the Acquisition, the Company holds approximately 62.00% of the total issued share capital of Weichai Lovol and Weichai Lovol is accounted for as a subsidiary of the Company.

Prior to the completion of the Acquisition, the Weichai Lovol Group had been conducting certain transactions with the Huiyin Leasing Group, which involved the grant of guarantees by the Weichai Lovol Group to the Huiyin Leasing Group in course of its operation over payment obligations of Weichai Lovol Group's customers under certain finance lease arrangements between the Huiyin Leasing Group and the Weichai Lovol Group's customers. It is expected that such transactions between the Weichai Lovol Group and the Huiyin Leasing Group will continue following completion of the Acquisition. Given that Huiyin Leasing became a connected person of the Company upon completion of the Acquisition, such existing transactions between the Weichai Lovol Group and the Huiyin Leasing Group constitute a continuing connected transaction of the Company. Hence, Weichai Lovol entered into the Framework Agreement to govern the principal terms of the Continuing Connected Transaction from 14 June 2022 to 31 December 2022.

LISTING RULES IMPLICATIONS

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

I. INTRODUCTION

References are made to the Company's announcement dated 18 April 2022 and the Company's circular dated 16 May 2022 in respect of the acquisition of approximately 22.69% shares of Weichai Lovol by the Company.

As disclosed in the poll results announcement of the Company dated 31 May 2022, the independent Shareholders of the Company has approved the Acquisition on 31 May 2022, following which the completion of the Acquisition occurred on 14 June 2022. Following the completion of the Acquisition, the Company holds approximately 62.00% of the total issued share capital of Weichai Lovol and Weichai Lovol is accounted for as a subsidiary of the Company.

Prior to the completion of the Acquisition, the Weichai Lovol Group had been conducting certain transactions with the Huiyin Leasing Group, which involved the grant of guarantees by the Weichai Lovol Group to the Huiyin Leasing Group in course of its operation over payment obligations of Weichai Lovol Group's customers under certain finance lease arrangements between the Huiyin Leasing Group and the Weichai Lovol Group's customers. It is expected that such transactions between the Weichai Lovol Group and the Huiyin Leasing Group will continue following completion of the Acquisition. Given that Huiyin Leasing became a connected person of the Company upon completion of the Acquisition, such existing transactions between the Weichai Lovol Group and the Huiyin Leasing Group constitute a continuing connected transaction of the Company. Hence, Weichai Lovol entered into the Framework Agreement to govern the principal terms of the Continuing Connected Transaction from the completion of the Acquisition to 31 December 2022.

A summary of the Continuing Connected Transaction, the Framework Agreement, the historical transaction amounts and the New Cap (and its basis) is set out in the section headed "II. Continuing Connected Transaction" in this announcement.

II. CONTINUING CONNECTED TRANSACTION

Summary of the Continuing Connected Transaction and the New Cap

The Continuing Connected Transaction is as follows:

Name of connected person	Name of Group Company	Connected person's relationship with the Group	Nature of the connected transaction with the Group
Huiyin Leasing (and its associates)	Weichai Lovol (for itself and on behalf of its subsidiaries)	Wholly-owned by Shanzhong Leasing which is in turn held as to approximately 56.74% by CNHTC, approximately 32.5% by Shandong Heavy Industry and approximately 10.76% by Weichai Heavy Machinery	The Weichai Lovol Group providing guarantee to the Huiyin Leasing Group in respect of the payment obligations of certain lease payments owed by its customers to the Huiyin Leasing Group

A summary of the proposed New Cap (being the maximum day-end guarantee balance) for the transaction contemplated under the Framework Agreement is set out below:

Details of the relevant Continuing Connected Transaction	New Cap From 14 June 2022 to 31 December 2022 RMB
Huiyin Leasing (and its associates)	1,930,237,931.2*

The Weichai Lovol Group providing guarantee to the Huiyin Leasing Group in respect of the payment obligations of certain lease payments owed by its customers to the Huiyin Leasing Group

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

Details of the Continuing Connected Transaction and the relevant Framework Agreement

The Company

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

Weichai Lovol

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.

Weichai Lovol is held by the Company as to approximately 62.00%, by Weichai Holdings as to approximately 37.31%, and by CITIC Machinery Manufacturing Inc. (中信機電製造公司) as to approximately 0.69%. To the best knowledge, information and belief of the Directors and having made all reasonable enquiries, Weichai Holdings is wholly-owned by Shandong Heavy Industry, whilst the ultimate beneficial owner of CITIC Machinery Manufacturing Inc. is the State Council of the People's Republic of China.

Huiyin Leasing

Huiyin Leasing is principally engaged in the leasing and financing of engineering machinery, diesel engines and heavy-duty vehicles.

To the best knowledge, information and belief of the Directors and having made all reasonable enquiries, Huiyin Leasing is wholly-owned by Shanzhong Leasing, which is in turn held as to approximately 56.74% by CNHTC, approximately 32.5% by Shandong Heavy Industry and approximately 10.76% by Weichai Heavy Machinery, among which CNHTC and Weichai Heavy Machinery are, in turn, also subsidiaries of Shandong Heavy Industry.

Shandong Heavy Industry is one of the leading automobile and equipment groups in the PRC, and in turn a state-owned enterprise organised under the laws of the PRC with limited liability, and is ultimately governed and controlled by Shandong Provincial People's Government* (山東省人民政府).

Existing arrangements between the Weichai Lovol Group and the Huiyin Leasing Group

Weichai Lovol is principally engaged in the design, development, manufacture and sale of agriculture machinery, construction machinery, vehicles, and vehicle parts and components, and would, as part of its ordinary business operations, directly or through their distributors, sell their products to independent third party customers (the “**Customer(s)**”).

At times, certain such Customers will have financing needs and will seek for financing from the Huiyin Leasing Group in purchasing the Weichai Lovol Group’s product, and the Huiyin Leasing Group, having considering the credibility of the relevant Customers, may grant certain financing to the customers through a finance lease arrangement (the “**Underlying Customer Loans**”). The finance lease arrangement shall involve a grant of an Underlying Customer Loan by the Huiyin Leasing Group to a Customer, which grant is conditional upon the transfer of the ownership of the product (the “**Leased Product**”) purchased by such Customer to the Huiyin Leasing Group. The Customer shall repay such Underlying Customer Loan to the Huiyin Leasing Group in the form of a lease payment for the use of the relevant Leased Product, and upon fulfilment of all outstanding lease payment obligations, the Huiyin Leasing Group shall transfer the ownership of the Leased Product back to the Customer at a nominal value.

With an aim to facilitate the sale of its products, the Weichai Lovol Group will at times provide guarantees to the Huiyin Leasing Group in respect of certain of the Underlying Customer Loans by undertaking to repurchase the Leased Products from the Huiyin Leasing Group or undertaking the Customer’s payment obligations in respect of the lease payments. It is expected that such transactions between the Weichai Lovol Group and the Huiyin Leasing Group will continue following completion of the Acquisition, and will then be governed under the Framework Agreement.

Principal terms of the Framework Agreement

Date: 14 June 2022

Parties: 1. Weichai Lovol
2. Huiyin Leasing

Term: From 14 June 2022 to 31 December 2022

Pursuant to the Framework Agreement, the Weichai Lovol Group has agreed that, in respect of Underlying Customer Loans granted by the Huiyin Leasing Group to the Customers through a finance lease arrangement, the Weichai Lovol Group will provide guarantees to the Huiyin Lease Group in the following manner:

- (i) in the event of a default on the Customer's part on the repayment of the Underlying Customer Loan and where the relevant distributors fail to perform the repurchase obligations (where applicable), the Weichai Lovol Group shall undertake the relevant repurchase obligations, which involves the repurchase from the Huiyin Leasing Group of the Leased Products at a price equivalent to the outstanding amount of the Underlying Customer Loan (including the lease payments in default, default penalties, outstanding lease payments (being lease payments that had not fallen due but for the default), nominal value of the Lease Products, and the costs and expenses of the Huiyin Leasing Group relating to the enforcement of the relevant guarantee); and/or
- (ii) the Weichai Lovol Group will provide a credit guarantee in favour of the Huiyin Leasing Group for the payment obligations of the relevant Customers in respect of the lease payments, pursuant to which, in the event of a default on a Customers' part on the repayment of the relevant Underlying Customer Loan, the Weichai Lovol Group will be liable to pay the Huiyin Leasing Group the Underlying Customer Loan (including the lease payments in default, default penalties, outstanding lease payments (being lease payments that had not fallen due but for the default), and the costs and expenses of the Huiyin Leasing Group relating to the enforcement of the relevant guarantee).

Insofar as the Company is aware, the amount of the Underlying Customer Loans and the amount and terms of the lease payments are determined after arm's length negotiations between the Huiyin Leasing Group and the Customers with reference to the loan prime rate published by the People's Bank of China and the rates charged by major and independent commercial banks in adjacent areas in the normal course of business for similar types of financing services and the credibility of the relevant Customers.

Pursuant to the Framework Agreement, the relevant members of the Weichai Lovol Group and the relevant members of the Huiyin Leasing Group will enter into a separate agreement to provide for the detailed terms of the relevant guarantee arrangement in accordance with the principles set out in the Framework Agreement.

Historical transaction amounts

The table below summarises the approximate historical amounts between the Weichai Lovol Group and the Huiyin Leasing Group, being the new Underlying Customer Loans incurred during each of the year ended 31 December 2020 and 2021 which guarantees had been provided by the Weichai Lovol Group to the Huiyin Leasing Group:

	For the year ended 31 December 2020 RMB'000 (unaudited)	For the year ended 31 December 2021 RMB'000 (unaudited)
Historical transaction amounts (being the new guarantees provided by the Weichai Lovol Group to the Huiyin Leasing Group during the relevant year)	241,500	685,060

As at the date of the Framework Agreement, the aggregate amount of the Underlying Customers Loans which guarantees have been provided by the Weichai Lovol Group to the Huiyin Leasing Group since prior to the date of the Framework Agreement and remains outstanding amounted to up to RMB930,237,931.2 (the “**Outstanding Guarantee**”).

New Caps and basis

The Company estimates that new guarantees amounting to up to RMB1,000,000,000 will be made by the Weichai Lovol Group in favour of the Huiyin Leasing Group from the completion of the Acquisition (i.e. the date of the Framework Agreement) to 31 December 2022. Accordingly, having taken into account such estimated new amount of guarantees as well as the amount of Outstanding Guarantee which amounted to up to RMB930,237,931.2, the Company estimates that the maximum day-end guarantee balance under the Framework Agreement, being the total outstanding amount of the relevant Underlying Customer Loans (including the Outstanding Guarantee), for the period from the completion of the Acquisition to 31 December 2022, will not exceed RMB1,930,237,931.2, and such amount has accordingly been set as the proposed New Cap for the relevant period for this Continuing Connected Transaction. The New Cap, being the maximum day-end guarantee balance under the Framework Agreement, was determined after considering the following factors:

- (i) the actual historical transaction amounts between Weichai Lovol and the Huiyin Leasing Group for the two years ended 31 December 2021, as well as the amount of the Outstanding Guarantee of RMB930,237,931.2;
- (ii) the expected outstanding balances of the current Underlying Customer Loans (including the costs of the Huiyin Leasing Group relating to the enforcement of the guarantees with respect to the lease payments and other expenses); and
- (iii) the Group’s business strategy in strengthening the cooperation with other finance services and leasing companies with a view to further support the financing needs of the end-customers of the Group and, in turn, improve the sales of the Group’s products. Based on Weichai Lovol Group’s sales plan for the year ended 31 December 2022 which involves a sale of 120,000 units of products, assuming that 15% of such sales shall be supported by the relevant finance lease arrangements involving an average financing of RMB65,000 per unit, the relevant guarantee that is estimated to be made by Weichai Lovol Group in 2022 will amount to approximately RMB1.2 billion.

The following table shows the New Cap, being the maximum day-end guarantee balance of the total outstanding amount of the Underlying Customer Loans, for the period from 14 June 2022 to 31 December 2022 for the transactions contemplated under the Framework Agreement:

	From 14 June 2022 to 31 December 2022 RMB
New Cap (being the maximum day-end guarantee balance)	1,930,237,931.2

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

References are made to the Company's announcement dated 18 April 2022 and the Company's circular dated 16 May 2022 in respect of the acquisition of approximately 22.69% shares of Weichai Lovol by the Company.

As disclosed in the poll results announcement of the Company dated 31 May 2022, the independent Shareholders of the Company has approved the Acquisition on 31 May 2022, following which the completion of the Acquisition occurred on 14 June 2022. Following the completion of the Acquisition, the Company holds approximately 62.00% of the total issued share capital of Weichai Lovol and Weichai Lovol is accounted for as a subsidiary of the Company.

Prior to the completion of the Acquisition, the Weichai Lovol Group had been conducting certain transactions with the Huiyin Leasing Group, which involved the grant of guarantees by the Weichai Lovol Group to the Huiyin Leasing Group in course of its operation over payment obligations of Weichai Lovol Group's customers under certain finance lease arrangements between the Huiyin Leasing Group and the Weichai Lovol Group's customers. It is expected that such transactions between the Weichai Lovol Group and the Huiyin Leasing Group will continue following completion of the Acquisition. Huiyin Leasing is wholly-owned by Shanzhong Leasing, which is in turn held as to approximately 56.74% by CNHTC, approximately 32.5% by Shandong Heavy Industry and approximately 10.76% by Weichai Heavy Machinery, among which CNHTC and Weichai Heavy Machinery are, in turn, also subsidiaries of Shandong Heavy Industry. Shandong Heavy Industry indirectly holds approximately 16.30% of the total issued share capital of the Company, accordingly, it is a substantial shareholder of the Company and a connected person of the Company. Hence, Huiyin Leasing is also a connected person of the Company and upon completion of the Acquisition, transactions between the Weichai Lovol Group and the Huiyin Leasing Group constitute a continuing connected transaction of the Company.

As the Weichai Lovol Group has cooperated with the Huiyin Leasing Group on the financing arrangements for many years and Weichai Lovol has built up a long term strategic and solid business relationship with the Huiyin Leasing Group, the Directors (including the independent non-executive Directors) consider it beneficial to the Group to continue to conduct the Continuing Connected Transaction in order to ensure and maximise operating efficiency and stability of the operations of the Weichai Lovol Group. In addition, with the relevant guarantee arrangement in place, the Underlying Customer Loans will be more readily available to customers of the Weichai Lovol Group, which is expected to facilitate the sales of the Weichai Lovol Group's product to its end customers which may lead to an increase in demand for the Weichai Lovol Group's products, which, in turn, is expected to contribute to an increase in the sales revenue of the Weichai Lovol Group.

In light of the above, the Directors (including the independent non-executive Directors) consider that the Continuing Connected Transaction has been subject to arm's length negotiation between Weichai Lovol and Huiyin Leasing and entered into by the Group in the ordinary and usual course of business, and the Framework Agreement is on normal commercial terms or better, and the transactions contemplated thereunder and the relevant New Caps are fair and reasonable and in the interests of the Company and the Shareholders as a whole.

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

At the Board meeting held on 14 June 2022 approving the Continuing Connected Transaction, Mr. Tan Xuguang, Mr. Jiang Kui and Mr. Sun Shaojun have abstained from voting in respect of the resolution approving the Continuing Connected Transaction in view of their respective positions in the relevant connected person(s). Save as disclosed above, none of the Directors has a material interest in the Continuing Connected Transaction.

IV. DEFINITIONS

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

“0.1% Threshold”	the thresholds referred to in Rule 14A.76(1)(a) of the Listing Rules
“5% Threshold”	the thresholds referred to in Rule 14A.76(2)(a) of the Listing Rules

“Acquisition”	the acquisition by the Company of approximately 22.69% shares of Weichai Lovol as disclosed in the Company’s announcement dated 18 April 2022 and the Company’s circular dated 16 May 2022
“associate(s)”	has the meaning ascribed thereto under the Listing Rules
“Board”	the board of Directors
“CNHTC”	中國重型汽車集團有限公司 (China National Heavy Duty Truck Group Company Limited), a state-owned enterprise organised under the laws of the PRC with limited liability and a connected person of the Company
“Company”	濰柴動力股份有限公司 (Weichai Power Co., Ltd.), a company established in the PRC with limited liability
“connected person”	has the meaning ascribed thereto under the Listing Rules
“Continuing Connected Transaction”	the transactions between the Group and the Huiyin Leasing Group as set out in the section headed “II. Continuing Connected Transaction” in this announcement which constitute a continuing connected transaction of the Company following completion of the Acquisition
“Customer(s)”	has the meaning ascribed to it in the section headed “II. Continuing Connected Transaction – Details of the Continuing Connected Transaction and the relevant Framework Agreement – Existing arrangements between the Weichai Lovol Group and the Huiyin Leasing Group” in this announcement
“Director(s)”	the director(s) of the Company
“Framework Agreement”	the agreement entered into between Weichai Lovol and Huiyin Leasing on 14 June 2022 as more particularly set out in section II. of this announcement
“Group”	the Company and its subsidiaries
“Huiyin Leasing”	匯銀融資租賃有限公司 (Huiyin Finance Leasing Co., Ltd.*), a company established in the PRC and a connected person of the Company

“Huiyin Leasing Group”	Huiyin Leasing and its associates
“Leased Product”	has the meaning ascribed to it in the section headed “II. Continuing Connected Transaction – Details of the Continuing Connected Transaction and the relevant Framework Agreement – Existing arrangements between the Weichai Lovol Group and the Huiyin Leasing Group” in this announcement
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange
“New Cap”	the cap to the Continuing Connected Transaction as set out in the section headed “II. Continuing Connected Transaction” in this announcement
“Outstanding Guarantee”	has the meaning ascribed to it in the section headed “II. Continuing Connected Transaction – Details of the Continuing Connected transaction and the relevant Framework Agreement – Historical transaction amounts” in this announcement
“PRC”	the People’s Republic of China
“RMB”	Renminbi, the lawful currency of the PRC
“Shandong Heavy Industry”	山東重工集團有限公司 (Shandong Heavy Industry Group Co., Ltd.*), a substantial shareholder and connected person of the Company holding the entire capital of Weichai Holdings
“Shanzhong Leasing”	山重融資租賃有限公司 (Shanzhong Finance Leasing Co., Ltd.*), a company established in the PRC and a connected person of the Company
“Shareholder(s)”	holder(s) of the shares in the Company
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Underlying Customer Loan(s)”	has the meaning ascribed to it in the section headed “II. Continuing Connected Transaction – Details of the Continuing Connected Transaction and the relevant Framework Agreement – Existing arrangements between the Weichai Lovol Group and the Huiyin Leasing Group” in this announcement

“Weichai Heavy Machinery”	濰柴重機股份有限公司 (Weichai Heavy-duty Machinery Co., Ltd.*) (formerly known as 山東巨力股份有限公司 (Shandong Juli Company Limited*)), a company established in the PRC and a connected person of the Company
“Weichai 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 subsidiary of the Company
“Weichai Lovol Group”	Weichai Lovol and its subsidiaries
“%”	per cent.

* For identification purposes only

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

The PRC, 14 June 2022

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