

26 May 2022

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

Dear Sirs,

NON-EXEMPT CONTINUING CONNECTED TRANSACTION

INTRODUCTION

We refer to our appointment to advise the Independent Board Committee and the Independent Shareholders in respect of the New CNHTC Supply Agreement, being a Non-exempt Continuing Connected Transaction, and the proposed New Caps, details of which are set out in the letter from the Board (the “**Letter from the Board**”) in the Company’s circular dated 26 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 30 March 2022, the Company entered into, inter alia, the New CNHTC Supply Agreement in respect of the Continuing Connected Transaction as more particularly described in the Letter from the Board.

Reference is made to the announcement of the Company dated 25 February 2021 in respect of certain possible continuing connected transactions between the Group and the CNHTC Group. Reference is also made to the Sinotruk Announcement, pursuant to which Sinotruk (Hong Kong) Limited disclosed that it received a notice from CNHTC on 28 February 2022 which stated that the gratuitous transfers in respect of 65% of the equity interest in CNHTC to Shandong Heavy Industry had been registered with the relevant government authorities in the PRC and hence, the gratuitous transfers had been completed. Accordingly, Shandong Heavy Industry has become holder of 65% of the equity interest in CNHTC, and in turn, CNHTC and its associates have become connected persons of the Company.

As the Group has been conducting certain transactions with the CNHTC Group and intend to continue the same following the completion of gratuitous transfers as set out in the Sinotruk Announcement, the Group entered into, among other things, the CNHTC Supply Agreement with CNHTC on 30 March 2022 to govern the principal terms of such transactions for three years ending 31 December 2024.

As all percentage ratios calculated in accordance with the Listing Rules for the Continuing Connected Transaction exceed the 5% Threshold, such Continuing Connected Transaction constitutes a Non-exempt Continuing Connected Transaction of the Company and the New CNHTC Supply Agreement and proposed New Caps will be subject to the reporting and announcement requirements, the annual review requirements, and the Independent Shareholders' approval requirements under Chapter 14A of the Listing Rules.

It was proposed that the New CNHTC Supply Agreement and the relevant New Caps in respect of the Continuing Connected Transaction shall be considered and, if thought fit, approved at the AGM.

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 AGM.

At the meeting of the Board on 30 March 2022 approving, inter alia, the Continuing Connected Transaction, Mr. Tan Xuguang, Mr. Jiang Kui and Mr. Sun Shaojun have abstained from voting on the resolutions in respect of the Continuing Connected Transaction for the reasons of their respective interest and/or position (as the case may be) in the relevant connected person. Save as disclosed, no other Directors have any material interest in the Continuing Connected Transaction.

The Independent Board Committee, comprising all 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 Non-exempt Continuing Connected Transaction and the proposed New Caps, and to advise the Independent Shareholders as to whether the terms of the New CNHTC Supply Agreement and the proposed New Caps are fair and reasonable and on how to vote on the relevant resolution(s) at the AGM, 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 discloseable and connected transaction announced on 18 April 2022 (details of which were set out in the circular of the Company dated 16 May 2022) and the major and continuing connected transactions announced on 30 March 2022 (details of which were also set out in the Circular). 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 AGM, Shareholders would be notified as soon as practicable.

All Directors jointly and severally accept full responsibility for the accuracy of the information contained in the Circular and confirm, having made all reasonable enquiries, that to the best of their knowledge, opinions expressed in the Circular have been arrived at after due and careful consideration and there are no other facts not contained in the Circular, the omission of which would make any statement in the Circular misleading.

We have not conducted any independent in-depth investigation into the business and affairs of the Group or any parties involved in the Non-exempt Continuing Connected Transaction.

This letter is issued to the Independent Board Committee and the Independent Shareholders solely in connection with their consideration of the Non-exempt Continuing Connected Transaction and the proposed New Caps and, except for its inclusion in the Circular, is not to be quoted or referred to, in whole or in part, nor shall this letter be used for any other purposes, without our prior written consent.

PRINCIPAL FACTORS AND REASONS CONSIDERED

In formulating our opinion regarding the Non-exempt Continuing Connected Transaction and the proposed New Caps, we have taken into account the following principal factors and reasons:

A. 1. Background and 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

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, the Company strived to offer the most competitive products and services and solidified the Company's 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 the Company's comprehensive competitiveness.

B. Principal Terms of the Non-exempt Continuing Connected Transaction

The Non-exempt Continuing Connected Transaction is the following Continuing Connected Transaction:

Name of connected person	Name of Group Company	Connected person's relationship with the Group	Nature of the connected transaction with the Group
CNHTC (and its associates)	The Company (for itself and on behalf of its subsidiaries)	Shandong Heavy Industry is the holder of 65% of the equity interest of CNHTC	Sale of vehicles, vehicle parts and components and related products, engines, engine parts and components and related products, and relevant services by the Company (and its subsidiaries) to CNHTC (and its associates)

C. Proposed New Caps

The proposed New Caps for the Non-exempt Continuing Connected Transaction for the three years ending 31 December 2024 are set out below:

Details of the relevant Continuing Connected Transaction

	Proposed New Caps		
	For the year	For the year	For the year
	ending	ending	ending
	31 December	31 December	31 December
	2022	2023	2024
	RMB	RMB	RMB
Sale of vehicles, vehicle parts and components and related products, engines, engine parts and components and related products, and relevant services by the Company (and its subsidiaries) to CNHTC (and its associates)	16,127,000,000	17,889,000,000	19,758,000,000

D. Details of the Non-exempt Continuing Connected Transaction and the New CNHTC Supply 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.

CNHTC

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

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

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

Agreement: New CNHTC Supply Agreement

Date: 30 March 2022

Parties: 1. The Company

2. CNHTC

Term: 1 January 2022 to 31 December 2024

The terms of the New CNHTC Supply Agreement are substantially the same as those of the Previous CNHTC Supply Agreement.

Price determination and internal control procedures

Pursuant to the New CNHTC Supply Agreement, the Company and/or other Group Company (as the case may be) shall sell vehicles, vehicle parts and components and related products, engines, engine parts and components and related products and relevant services (as the case may be) to CNHTC and/or its associates (as the case may be) at market prices and settled on a monthly or quarterly basis (depending on the terms of the definitive agreements to be entered into by the parties), for a term of three years ending 31 December 2024, upon the expiry of which the parties shall have an option to renew the same for a period of three years on a mutually agreed basis.

According to the Letter from the Board, the price of the said products shall be determined according to the following mechanism: the marketing department of the Company regularly conducts market research and analysis regarding specific products, in which a number of factors, including the overall market prices, market shares, ordering situation and performance of major competitors of such products, are comprehensively considered. Taking into account the results of the aforementioned research and analysis and with reference to the relevant mark up to the production costs of the products of different specifications on a “cost-plus” basis with reference to the industrial gross profit margin, which generally ranges between 3% to 10% for light duty truck products, and 16% to 25% for heavy-duty truck products, the marketing department of the Group would submit a price suggestion after its analysis to the Company’s price management department and the final prices are determined at arm’s length negotiation among the parties. The price management department of the Company regularly reviews the reasonableness of prices and makes amendments when necessary. The Directors are of the view that the abovementioned methods and procedures under the pricing policies can ensure that this Continuing Connected Transaction is conducted on normal commercial terms, the terms of sale shall be no less favourable than the terms available to independent third parties and not prejudicial to the interests of the Company and its minority Shareholders. We have reviewed two market research as conducted by the Company’s

marketing department, which included the analysis of the latest industry trends and comparison of turnover by product types (including trucks and engines), industry competitors and geographical regions in the PRC, as well as analysis on the latest PRC macroeconomic data, government policies and sector statistics that may be relevant to the Company's pricing policies. We agree that such regular up-to-date market analysis is important for the Company to consider when determining the pricing of its products.

We have also reviewed the Company's internal control procedures manual of the relevant pricing policies which is subject to the respective approval procedures by different departments of the Company mentioned above. Also, we have reviewed four samples of VAT sales invoices selected by the Company on a random basis to confirm that the transaction prices entered into between the Group and CNHTC Group are on normal commercial terms or on terms no less favourable to the Group than those available to independent third parties when compared to the pricing terms entered into between the Group and independent third parties regarding the same products offered by the Group. We also noted that such pricing contracts have been properly authorized by the respective departments of the Company. Accordingly, we consider that the above sample size is sufficient, fair and representative in concluding our view that the pricing policies were properly followed. We are also of the view that the above methods and procedures of price determination and internal control set by the Company, including and not limited to the collection of market information, conducting price consultations and inspection in the PRC market, negotiations taking into account of the market price and relevant product cost and regular review by the price management department or pricing committee, will enable the Company to ensure that the terms and conditions of the Non-exempt Continuing Connected Transaction are fair and reasonable so far as the Company and the Independent Shareholders are concerned, and are able to ensure that the Company will achieve such terms which are either (i) on normal commercial terms, or (ii) on terms no less favourable to the Group than those available to independent third parties, and the Non-exempt Continuing Connected Transaction has been subject to arm's length negotiation between the Company and CNHTC Group.

Historical transaction amounts

The table below summarises the actual transaction amounts involved for the three years ended 31 December 2021 (unaudited) in respect of the Group's sale of relevant products and services to the CNHTC Group:

	For the year ended 31 December 2019 RMB (unaudited)	For the year ended 31 December 2020 RMB (unaudited)	For the year ended 31 December 2021 RMB (unaudited)
Actual transaction amount	210,480,749	5,758,015,100	9,377,634,275
Utilisation rate (%)			Approximately 56.5%

The Previous Cap for the year ended 31 December 2021 for the Continuing Connected Transaction is RMB16,600,000,000. For the Shareholder's information purposes, the actual transaction amounts in respect of the Group's sale of relevant products and services to the CNHTC Group for each of the three years ended 31 December 2021 (as detailed below) were less than RMB16,600,000,000.

According to the Letter from the Board, the unaudited actual transaction amounts for the three financial years ended 31 December 2021 were RMB210,480,749, RMB5,758,015,100 and RMB9,377,634,275 respectively. Based on the annual cap of RMB16,600,000,000 for the year ended 31 December 2021, the historical utilisation rate was approximately 56.5%.

Based on the consolidated management accounts of the Company, during the period since completion of the gratuitous transfers on 25 February 2022 to 31 March 2022, the Group's sale of relevant products and services to the CNHTC Group amounted to approximately RMB820,038,000.

Reference is made to the announcement of the Company dated 27 August 2020 and the circular of the Company dated 23 October 2020 in respect of certain continuing connected transactions pursuant to which the Company and its subsidiaries shall sell diesel engines, diesel engine parts and components, materials, semi-finished products, hydraulic products and related products and to provide processing services to Weichai Holdings and its associates for the term of three years ending 31 December 2023 ("**Weichai Holdings CCT**"). Reference is also made to the extraordinary general meeting of the Company held on 13 November 2020, pursuant to which the Weichai Holdings CCT (with an annual cap of RMB5,200,000,000 for the year ending 31 December 2022) was approved.

As CNHTC has become an associate of Weichai Holdings following completion of the gratuitous transfers on 25 February 2022, the Group's sale of relevant products and services to the CNHTC Group for the period from 25 February 2022 onwards constitute part of the Weichai Holdings CCT. As at the Latest Practicable Date, the approved annual cap for the year ending 31 December 2022 under the Weichai Holdings CCT has not been exceeded. Before obtaining the Independent Shareholders' approval in respect of the proposed New Caps, the Company will ensure that the approved annual cap under the Weichai Holdings CCT is not exceeded having taken into account the sales of relevant products and services by the Group to the CNHTC Group from 25 February 2022 onwards.

The Company estimates that the transaction amount in respect of the Continuing Connected Transaction for the three years ending 31 December 2024 will not exceed RMB16,127 million, RMB17,889 million and RMB19,758 million, respectively, and such amounts have accordingly been set as the proposed New Caps for this Continuing Connected Transaction.

The above proposed New Caps have been estimated by the Company primarily based on:

- (i) the relevant historical transaction amounts;

- (ii) the estimate increase in the number of products required by the CNHTC Group in view of the implementation of the Group's sales plan for the years 2022 to 2024, having taken into account the estimated market conditions and export performance, the average unit prices of the same, and the costs of the processing services to be provided. In 2021, with the pandemic under control, the Chinese economic growth was higher than the global average level due to strong export and domestic demand. It is expected that such a demand in export will continue in the coming years, which along with the imposition of restriction policies in respect of China IV and China V standard automobiles, will further increase demands for the Group's products. Based on the aforementioned, and on the basis on a general increasing trend of costs and accordingly unit prices of product, the Group has devised its sales plan, and pursuant to which, for the years 2022 to 2024, the Group intends to sell approximately 230,000 to 270,000 units of engines, engine parts and components and related products to the CNHTC Group at an average unit price of RMB60,000, further, the turnover for the sales of vehicles, vehicle parts and components and related products to the CNHTC Group for the years 2022 to 2024 is estimated to be approximately RMB2,000 million to RMB2,500 million;
- (iii) the fact that the Group has since 2019 established a business relationship with the CNHTC Group involving the sale of relevant products and services by the Group to the CNHTC Group for the manufacturing of vehicles by the CNHTC Group. Given the track record of the Group being able to constantly supply products and services of reliable quality to the CNHTC Group, a closer cooperation between the Group and the CNHTC Group has been developed since the beginning of year 2021, further boosting the CNHTC Group's demand for the Group's products and services;
- (iv) with the expected continual growth of the commercial vehicle market and an enhanced market recognition of the CNHTC Group's vehicles installed with the Group's engines, the CNHTC Group is expected to face a substantial increase in the need for the Group's engines, in order to meet with the increase in the CNHTC Group's sales of both its heavy-duty trucks and light duty trucks; and
- (v) a buffer of approximately 5% in preparation of possible market fluctuations.

We note that the actual transaction amount for the year ended 31 December 2020 of RMB5,758,015,100 represents a significant increase of approximately 26.4 times from the actual transaction amount of RMB210,480,749 for the year ended 31 December 2019, and the actual transaction amount for the year ended 31 December 2021 of RMB9,377,634,275 represents a further increase of approximately 62.9% over the previous financial year. Although the utilisation rate for the year ended 31 December 2021 was only approximately 56.5%, the proposed New Cap for the year ending 31 December 2022 is only adjusted marginally to RMB16,127,000,000. Given that the historical actual transaction amount has grown by approximately 62.9% for the year ended 31 December 2021, we consider that the proposed New Cap for the year ending 31 December 2022 is fair and reasonable.

According to the Letter from the Board, taking into account and on the basis of all the aforesaid factors, it is estimated that the overall transaction amount of the sale of products and services by the Group to the CNHTC Group will increase by approximately 0.7 times for the year ending 31 December 2022 as compared with the actual transaction amount in 2021, and further by approximately 10.9% and 10.4% for each of the years ending 31 December 2023 and 31 December 2024, respectively.

In order to ensure that the actual transaction amounts do not exceed the proposed New Caps, the Group has implemented certain internal control policies and procedures, pursuant to which, designated personnel of the Company's finance department has been assigned to monitor the actual transaction amounts of the transactions contemplated under the New CNHTC Supply Agreement on a monthly basis, and reports will also be made to the senior management periodically such that if the actual transaction amounts reaches over 80% of the proposed New Caps, appropriate measures will be taken to revise the New Caps or to adjust the conducting of the transaction in a timely manner.

We have discussed with the Company on the expected demand for the Group's products and services by the CNHTC Group which is mainly driven by the expected growth of the commercial vehicle market in the PRC, and we are given to understand that the Company has considered the above five factors when estimating the proposed New Caps which mainly include the overall market prices, market shares, ordering situation and performance of major competitors of products like heavy-duty trucks and light duty trucks.

To assess whether the Company's expectation on the continual growth of the commercial vehicle market leading to a substantial increase in the expected need for the Group's engines by the CNHTC Group is fair and reasonable, we have reviewed the printed publication titled "China Automobile Industry Newsletter of Production & Sales" (中國汽車工業產銷快訊) numbered 265 (the first issue for the year 2021) issued by China Association of Automobile Manufacturers (CAAM) (中國汽車工業協會). The publication indicated that, among others, the overall turnover for China's truck market in 2020, comprising of heavy-duty trucks and light duty trucks, had recorded a significant year-on-year growth rate of approximately 25% and such industry trends and market conditions are generally consistent with the Company's expectation on the continual increase in the demand of the truck market.

In addition to the above, we agree with the other factors considered by the Company which are also relevant in forming the basis of the proposed New Caps, including the relationship established between the Group and the CNHTC Group based on previous track record of the Group's increasing supply of products and services to the CNHTC Group since 2019 and resulting from the enhanced market recognition of the CNHTC Group's vehicles that were installed with the Group's engines, and we consider such various factors as well as the buffer set by the Company are fair and reasonable given the significant growth observed in the historical transaction amounts recorded for the three years ended 31 December 2021 in respect of the Group's sale of relevant products and services to the CNHTC Group.

Accordingly, we are of the view that the Non-exempt Continuing Connected Transaction has been entered into by the Group in the ordinary and usual course of business, and the Non-exempt Continuing Connected Transaction and the proposed New Caps are fair and reasonable so far as the Independent Shareholders are concerned and hence, the said terms are in the interests of the Company and the Independent Shareholders as a whole.

E. Reasons for the Non-exempt Continuing Connected Transaction

The Company is principally engaged in the research and development, manufacture and sale of high-speed, heavy-duty diesel engines and CNHTC is a commercial vehicles manufacturer. Leveraging on the existing business relationship between the Group and the CNHTC Group, the Board considers that the Continuing Connected Transaction will allow the Group to maintain a strong strategic and business relationship with the CNHTC Group, thereby generating synergy potential and mutual economic benefits between the Group and the CNHTC Group.

We have discussed with the management of the Company and concur with the Board's view that, in respect of the Continuing Connected Transaction between the Group and the CNHTC Group, the sale of vehicles, vehicle parts and components and related products, engines, engine parts and components and related products and relevant services to the CNHTC Group will provide a secure source of revenue for the Group and contribute to the implementation of the Group's sales plan.

RECOMMENDATION

Having considered the principal factors and reasons referred to above, we are of the opinion that the terms of the New CNHTC Supply Agreement is either (i) on normal commercial terms, or (ii) on terms no less favourable to the Group than those available to independent third parties, and the Non-exempt Continuing Connected Transaction has been subject to arm's length negotiation between the Company and CNHTC Group, and has been entered into by the Group in the ordinary and usual course of business, and the Non-exempt Continuing Connected Transaction and the proposed New Caps are fair and reasonable so far as the Independent Shareholders are concerned and hence, the said terms are in the interests of the Company and the Independent Shareholders as a whole. Accordingly, we would advise the Independent Shareholders and the Independent Board Committee to recommend the Independent Shareholders to vote in favour of the resolution(s) to approve the terms of the Non-exempt Continuing Connected Transaction and the proposed New Caps at the AGM.

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



Joanne Pong
Responsible Officer