

26 May 2022

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

Dear Sirs,

MAJOR AND CONTINUING CONNECTED TRANSACTIONS IN RESPECT OF NEW FINANCIAL SERVICES AGREEMENT AND NEW CAPS

INTRODUCTION

We refer to our appointment to advise the Independent Board Committee and the Independent Shareholders in respect of the provision of deposit services by Shandong Finance to the Group under the New Financial Services Agreement 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 on 30 March 2022 that, amongst other things, the Group entered into the New Financial Services Agreement, pursuant to which Shandong Finance has conditionally agreed to provide, inter alia, certain deposit services to the Company in accordance with the terms and conditions set out in the New Financial Services Agreement.

Shandong Heavy Industry is a substantial shareholder of the Company holding approximately 16.30% of the issued share capital of the Company. As Shandong Heavy Industry holds 37.5% equity interest in Shandong Finance, Shandong Finance is an associate of Shandong Heavy Industry and therefore a connected person of the Company under the Listing Rules. Accordingly, the New Financial Services Agreement and the transactions contemplated thereunder constitute continuing connected transactions of the Company under Chapter 14A of the Listing Rules.

As certain of the applicable percentage ratios calculated in accordance with the Listing Rules for the deposit services under the New Financial Services Agreement exceed 25% but all of

which are less than 100%, the provision of the deposit services by Shandong Finance to the Group constitutes a major transaction of the Company and is subject to the reporting, announcement and shareholders' approval requirements under Chapter 14 of the Listing Rules. Further, as all of the applicable percentage ratios calculated in accordance with the Listing Rules for the deposit services under the New Financial Services Agreement for the three years ending 29 June 2025 exceed the 5% Threshold, the provision of the deposit services by Shandong Finance to the Group and the proposed New Caps for the relevant periods will be subject to the reporting, annual review, and the independent shareholders' approval requirements under Chapter 14A of the Listing Rules.

It was proposed that the New Financial Services Agreement and the relevant New Caps 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.

The Company approved the New Financial Services Agreement and the transactions contemplated thereunder in the Board meeting held on 30 March 2022. At the aforesaid Board meeting, Mr. Tan Xuguang, Mr. Jiang Kui and Mr. Sun Shaojun have abstained from voting in respect of the resolution approving such transactions in view of their respective positions in Shandong Heavy Industry. Save as disclosed above, none of the Directors has a material interest in such transactions and is required to abstain from voting.

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 terms of the deposit services under the New Financial Services Agreement and the proposed New Caps, and to advise the Independent Shareholders as to whether the terms therein 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 non-exempt continuing connected transaction 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 transactions, 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 New Financial Services Agreement.

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

A. The Background

The Board announced on 30 March 2022 that, amongst other things, the Group entered into the New Financial Services Agreement, pursuant to which Shandong Finance has conditionally agreed to provide, inter alia, certain deposit services to the Company in accordance with the terms and conditions set out in the New Financial Services Agreement.

The Group shall utilise the services of Shandong Finance on a voluntary, non-exclusive basis and is not under any obligations to engage Shandong Finance for any particular service. Shandong Finance is a non-banking financial institution with the approval of the CBIRC, which is merely one of a number of financial institutions providing financial services to the Group.

B. Principal Terms of the New Financial Services Agreement

Date: 30 March 2022

Parties: (1) the Company; and

(2) Shandong Finance

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

Effective date and term

The New Financial Services Agreement shall become effective on the execution date of the New Financial Services Agreement and has a term of three years ending 29 June 2025, subject to the approval at the AGM of the transactions contemplated under the New Financial Services Agreement and the proposed New Caps. The term of the New Financial Services Agreement can be extended on a mutually agreed basis.

Deposit services

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

- (a) the interest rate for the deposit of the Group's funds with Shandong Finance shall, subject to the compliance of the relevant requirements of the People's Bank of China, be no less than the highest interest rate for the same type of deposit offered by the major commercial banks in the PRC for the same period. It is estimated that the interest rate will range from the benchmark deposit rate announced by the People's Bank of China over the same period for the same level to 40% above such rate, which may be adjusted in accordance with changes in the currency policy of the People's Bank of China and interest rates in the market. We have discussed with the Company and confirmed that the said range of interest rate is only an estimate by the Group with reference to the deposits placed by the Group with PRC banks in the past and the maximum deposit rate offered by major PRC banks in the market, and the actual interest rate offered by Shandong Finance to the Group shall always be no less than the highest interest rate for the same type of deposit offered by the major commercial banks in the PRC for the same period.

By adopting the pricing policy as stated above, the Company can ensure the actual interest rate offered by Shandong Finance to the Group will always be no less than the highest interest rate for the same type of deposit offered by the major commercial banks in the PRC for the same period, which is beneficial to the Company when it places deposits with Shandong Finance, and therefore we consider the interest rate for the deposit services is fair and reasonable, and can ensure the said terms for the deposit services are conducted on normal commercial terms or better, which is in the interests of the Company and the Independent Shareholders as a whole; and

- (b) the maximum daily balance (including interests) of the Group's deposit with Shandong Finance shall not exceed the following caps for each of the three years ending 29 June 2025:

| | From 30 June 2022 to 29 June 2023 (RMB billion) | From 30 June 2023 to 29 June 2024 (RMB billion) | From 30 June 2024 to 29 June 2025 (RMB billion) |
|----------|--|--|--|
| New Caps | 34 | 37 | 40 |

Other terms of the New Financial Services Agreement

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

(1) Loan services

Shandong Finance shall provide certain loan services to the Group under the New Financial Services Agreement. As the said loan services to be provided by Shandong Finance to the Group are on normal commercial terms similar to or more favourable than those offered by other financial institutions for the provision of comparable services in the PRC and are for the benefit of the Group, and no security over the assets of the Group is granted in respect of such loan services, the loan service to be provided by Shandong Finance to the Company under the New Financial Services Agreement are exempt from the reporting, announcement and independent shareholders' approval requirements under the Listing Rules according to Rule 14A.90 of the Listing Rules.

For completeness, the major terms of the said loan services to be provided by Shandong Finance to the Group have been set out in the Letter from the Board for the Shareholders' information.

(2) *Miscellaneous financial services*

Shandong Finance shall also provide certain other miscellaneous financial services to the Group under the New Financial Services Agreement. In respect of the provision of such financial services by Shandong Finance to the Group, as they are conducted on normal commercial terms or better to the Group, and the Group expects that all the percentage ratios (if applicable) of the relevant annual fees payable by the Group to Shandong Finance in aggregate will be below 0.1%, the provision of such financial services by Shandong Finance to the Group will be exempt from the reporting, announcement and independent shareholders' approval requirements under the Listing Rules according to Rule 14A.76 of the Listing Rules.

For completeness, the major terms of the provision of such financial services to be provided by Shandong Finance to the Group have been set out in the Letter from the Board for the Shareholders' information.

C. Existing Annual Caps and Historical Amounts of Deposits

Pursuant to the terms of the Existing Financial Services Agreement, the existing annual caps, i.e. the maximum daily balance (including interests) of the Company's deposit with Shandong Finance for each of the 12 months ended 29 June 2020 and 29 June 2021, and the 12 months ending 29 June 2022 were RMB24.5 billion, RMB28.0 billion and RMB33.0 billion, respectively.

The maximum daily balance (including interests) of the Company's deposit with Shandong Finance during each of the 12 months ended 29 June 2020 and 29 June 2021, and the eight months ended 28 February 2022 were approximately RMB24.4 billion, RMB28.0 billion and RMB33.0 billion, respectively.

Since 28 February 2022 and up to the Latest Practicable Date, the actual daily balance (including interests) of the Company's deposit with Shandong Finance had not exceeded the existing annual cap (i.e. maximum daily balance) of RMB33 billion for the 12 months ending 29 June 2022.

Based on the above, the historical utilisation rates of the existing annual caps for the 12 months ended 29 June 2020 and 29 June 2021, and the eight months ended 28 February 2022 were 99.6%, 100.0% and 100.0% respectively. We note that the historical amounts of the maximum daily balance of deposits were fully utilised up to the maximum amount of the existing annual caps for the 12 months ended 29 June 2021 and the eight months ended 28 February 2022 and was almost fully utilised for the 12 months ended 29 June 2020.

D. Proposed Annual Caps and Reasons

Deposit services

The Board, having considered,

- (i) the historical cash position of the Group, in particular, the actual aggregate cash and deposit balances of the Group as at 31 December 2021 amounted to approximately RMB75 billion, among which the bank balance maintained by the Group with commercial banks and financial institutions as at 31 December 2021 amounted to approximately RMB65 billion. With the current average concentration rate of deposits of the Group maintained with Shandong Finance being only approximately 60%, the Board considers that there exists a demand for an expansion of the deposit services with Shandong Finance;
- (ii) the utilisation of the existing annual caps (i.e. the maximum daily balances (including interests)) was approximately 99.6%, 100% and 100% for the each of the 12 months ended 29 June 2020 and 29 June 2021, and the eight months ended 28 February 2022, respectively, under the Existing Financial Services Agreement;
- (iii) the expected growth of the business operations of the Group which is expected to create an increase in the cash inflow to the Group during the term of the Financial Services Agreement, and, in turn, lead to an increase in demand for deposit services with Shandong Finance which offers favourable interest rates to the Group as detailed in the sub-section headed “B. Principal Terms of the New Financial Services Agreement – Deposit services” above; and
- (iv) the expected amount of interest income from Shandong Finance, took a conservative view that the actual daily balance (including interests) of the Company’s deposit with Shandong Finance for the 12 months ending 29 June 2023 shall increase by approximately 3% when compared with the existing annual cap of RMB33 billion for the 12 months ending 29 June 2022, and subsequently by approximately 8.8% and 8.1% for each of the 12 months ending 29 June 2024 and 29 June 2025, respectively. Hence, it was proposed that the maximum daily deposit balance (including interests) of the

aggregated deposits placed by the Group with Shandong Finance pursuant to the New Financial Services Agreement shall not exceed the following caps for each of the three years ending 29 June 2025:

| | From 30 June 2022 to 29 June 2023 (RMB billion) | From 30 June 2023 to 29 June 2024 (RMB billion) | From 30 June 2024 to 29 June 2025 (RMB billion) |
|-----------------------------|--|--|--|
| New Caps | 34.0 | 37.0 | 40.0 |
| Increase from previous year | Approximately 3.0% | Approximately 8.8% | Approximately 8.1% |

The proposed new annual cap of RMB34.0 billion for the year ending 29 June 2023 represents an increase of approximately 3.0% from the existing annual cap of RMB33 billion for the year ending 29 June 2022. Given that the maximum daily balance (including interests) of the Company's deposit with Shandong Finance for the eight months ended 28 February 2022 of RMB33.0 billion was already fully utilised up to the maximum limit (representing a historical utilisation rate of 100.0%), we consider such increase to be reasonable.

In addition, the new annual caps for the years ending 29 June 2024 and 29 June 2025 represent only an increase of approximately 8.8% and 8.1% from the preceding year respectively.

We have reviewed the annual results of the Company for the year ended 31 December 2021 and noted that the Company's revenue was approximately RMB203,548 million, representing an increase of approximately 3.2% compared with that in 2020. Also, cash and cash equivalents increased from approximately RMB62,429 million as at 31 December 2020 to RMB75,043 million as at 31 December 2021, representing an increase of approximately 20.2% and accounts receivable increased from approximately RMB15,285 million as at 31 December 2020 to approximately RMB18,191 million as at 31 December 2021, representing an increase of approximately 19.0%. Accordingly, the Company has substantial cash and cash equivalents for the purposes of bank deposits and also significant accounts receivable which will increase its cash position upon receipt. On the basis of the above factors, we consider that the proposed New Caps, and the proposed increase of approximately 8.8% and approximately 8.1% for the two years ending 29 June 2025, are fair and reasonable and in the interests of the Independent Shareholders as a whole.

Loan services and miscellaneous financial services

As disclosed above, the provision of loan services and miscellaneous financial services by Shandong Finance to the Company pursuant to the New Financial Services Agreement are exempt from the reporting, announcement and independent shareholders' approval requirements under the Listing Rules according to Rule 14A.90 and Rule 14A.76 of the Listing Rules, respectively.

E. Reasons for and Benefits of the New Financial Services Agreement

According to the Letter from the Board, the reasons for the Company to enter into the New Financial Services Agreement with Shandong Finance are as follows:

1. the interest rates offered by Shandong Finance for the deposit services, and the rates and fees charged by Shandong Finance for the loan services and miscellaneous financial services to be provided to the Company shall be equal to or more favourable than those offered or charged by major commercial banks and other financial institutions in the PRC for the same type of financial services provided to the Company;
2. the activities of Shandong Finance are regulated by the CBIRC and Shandong Finance provides services within its approved scope in accordance with its operational requirement; and
3. the Company directly holds 31.25%, and, through its 51% subsidiary 陝西法士特齒輪有限責任公司 (Shaanxi Fast Gear Co. Ltd.*), is interested in 6.25% equity interest in Shandong Finance, which allows it to benefit from the profits of Shandong Finance.

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

As mentioned in the section headed “B. Principal Terms of the New Financial Services Agreement” above, the interest rate for the deposit of the Group’s funds with Shandong Finance shall, subject to the compliance of the relevant requirements of the People’s Bank of China, be no less than the highest interest rate for the same type of deposit offered by the major commercial banks in the PRC for the same period. The Company estimates that the interest rate will range from the benchmark deposit rate announced by the People’s Bank of China over the same period for the same level to 40% above such rate, which may be adjusted in accordance with changes in the currency policy of the People’s Bank of China and interest rates in the market. We have reviewed two samples of interest rates for deposit of the Group’s funds with Shandong Finance and confirm that the rates were no less than the prevailing highest interest rate for the same type of deposit offered by commercial banks in the PRC during that period.

Accordingly, we consider that the deposit services under the New Financial Services Agreement are on normal commercial terms or better and are fair and reasonable and are in the interests of the Company and the Independent Shareholders as a whole. We also consider the potential for the Company to obtain equivalent or more favourable terms to be beneficial to the Company and the Independent Shareholders as a whole.

F. Internal Control Procedures

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

1. Shandong Finance shall ensure that it is in strict compliance with the requirements of the relevant PRC financial laws and regulations;
2. the monthly report or financial statements of Shandong Finance for each month will be provided to the Group;
3. a specific setting has been implemented within Shandong Finance's fund management system which monitors the balance of the Group's deposit with Shandong Finance on a daily basis, and pursuant to which a warning will be automatically generated and be notified to the Company should the aggregate amount of daily deposit maintained by the Group with Shandong Finance exceed a certain level;
4. specially designated personnel from the finance settlement department of the Company and the finance management department of the Company will be assigned to monitor the aggregate amount of daily balance maintained by the Group with Shandong Finance on a daily basis and to review the daily report issued by the fund management system of Shandong Finance as mentioned in paragraph (3) above to ensure that the New Caps will not be exceeded;
5. the Company shall regularly review and obtain the relevant documents such as account books, financial statements and audit reports of Shandong Finance in order to assess the business of Shandong Finance and its financial risk and position;
6. the Company shall be notified within two business days upon the occurrence of circumstances that may cause harm to the security of the Group's deposits or on the occurrence of any other circumstances that may jeopardise the security of the Group's deposits. In the event that the relevant risks cannot be eliminated, the Company shall take relevant actions to withdraw all deposits; and

7. the auditors of the Company will conduct annual review on the transactions contemplated under the New Financial Services Agreement and the New Caps in respect of the deposit services in accordance with the Listing Rules. The independent non-executive Directors will also provide annual confirmations in the annual reports of the Company in respect of the transactions contemplated under the New Financial Services Agreement to ensure that such transactions are entered into on normal commercial terms, fair and reasonable, and carried out pursuant to its contractual terms.

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

We consider that such internal control procedures, including and not limited to the provision of accounting reports and regular review of financial statements of Shandong Finance, will enable the Company to monitor its deposits in a timely manner and accordingly are favourable to the Shareholders. We have also been provided with two samples of accounts and financial statements reviewed by the Company and confirm that the Company has abided by this internal control procedure.

G. Information of the Parties

The Company

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

Shandong Finance

The business scope of Shandong Finance includes the following businesses in domestic and foreign currencies: (1) provision of finance services and financing consultancy services to its member companies, provision of credit verification and related consultancy and agency services to its member companies; (2) provision of assistance to its member companies in payment and receipt of transaction proceeds; (3) provision of approved insurance agency services; (4) provision of guarantees to its member companies; (5) dealing with entrusted loans among its member companies; (6) provision of bill acceptance and discounting services to its member companies; (7) provision of intra-group transfer and settlement services to its member companies and planning of clearing and settlement scheme; (8) provision of its deposit services to its member companies; (9) provision of loans and finance leasing services to member companies; (10) provision of interbank loans; (11) underwriting the corporate bonds issued by its member companies; (12) making investments in negotiable securities (except stock trading in secondary market); and (13) provision of consumer credit, buyer credit, finance leasing and other services as permitted by the CBIRC for its member companies.

Shandong Finance is held as to 37.5%, 31.25%, 12.5%, 12.5% and 6.25% by Shandong Heavy Industry, the Company, 濰柴重機股份有限公司 (Weichai Heavy-duty Machinery Co., Ltd.*), 山推工程機械股份有限公司 (Shantui Engineering Machinery Co., Ltd.*) and 陝西法士特齒輪有限責任公司 (Shaanxi Fast Gear Co., Ltd.*, a 51% subsidiary of the Company), respectively.

Weichai Heavy-duty Machinery Co., Ltd. is a company whose shares are listed on the Shenzhen Stock Exchange (stock code: 000880) and is held as to approximately 30.59% by its single largest shareholder, 濰柴控股集團有限公司 (Weichai Group Holdings Limited*), which is in turn a wholly-owned subsidiary of Shandong Heavy Industry.

Shantui Engineering Machinery Co., Ltd. is a company whose shares are listed on the Shenzhen Stock Exchange (stock code: 000680) and is accounted for as a subsidiary of Shandong Heavy Industry.

According to the Letter from the Board, to the best knowledge, information and belief of the Directors and having made all reasonable enquiries, Shandong Heavy Industry, and hence Shandong Finance, are ultimately governed and controlled by the Shandong Provincial People's Government.

H. Financial Effect of the Deposit Services under the New Financial Services Agreement

The Directors are of the opinion that the provision of deposit services under the New Financial Services Agreement will not have material impact on the earnings, assets and liabilities of the Group.

RECOMMENDATION

Having considered the principal factors and reasons referred to above, we are of the opinion that the terms of the deposit services under the New Financial Services Agreement and the relevant New Caps are on normal commercial terms or better and in the ordinary and usual course of business of the Company and 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(s) to approve the terms of the deposit services under the New Financial Services Agreement and the relevant New Caps at the AGM.

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



Joanne Pong
Responsible Officer

* For identification purposes only