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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)

CONNECTED TRANSACTION

**ACQUISITION OF
THE ENTIRE EQUITY INTEREST IN
WEICHAI IMPORT AND EXPORT**

THE ACQUISITION

The Board is pleased to announce that on 29 October 2021, the Company entered into the Equity Transfer Agreement with Weichai Holdings and Weichai Import and Export, pursuant to which the Company has agreed to acquire, and Weichai Holdings has agreed to sell, the entire equity interest in Weichai Import and Export at the consideration of approximately RMB313.75 million (equivalent to approximately HK\$381.56 million).

Following completion of the above Acquisition, the Company will become the holder of the entire equity interest of Weichai Import and Export, and Weichai Import and Export will be accounted for as a subsidiary of the Company.

LISTING RULES IMPLICATIONS

Weichai Holdings holds approximately 16.30% of the total issued share capital of the Company. As such, Weichai Holdings is a substantial shareholder of the Company and, in turn, a connected person of the Company. Therefore, the Acquisition constitutes a connected transaction of the Company under Chapter 14A of the Listing Rules.

As the highest applicable percentage ratio calculated pursuant to the Listing Rules for the Acquisition is more than 0.1% but all of which are less than 5%, the Acquisition is subject to the reporting, announcement and annual review requirements under Chapter 14A of the Listing Rules but is exempt from the independent Shareholders' approval requirement.

I. INTRODUCTION

The Board is pleased to announce that on 29 October 2021, the Company entered into the Equity Transfer Agreement with Weichai Holdings and Weichai Import and Export, pursuant to which the Company has agreed to acquire, and Weichai Holdings has agreed to sell, the entire equity interest in Weichai Import and Export.

II. PRINCIPAL TERMS OF THE ACQUISITION

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

Date: 29 October 2021

Parties:

- (1) the Company, as the purchaser
- (2) Weichai Holdings, as the seller
- (3) Weichai Import and Export, as the target company

Subject matter

The Company has agreed to purchase, and Weichai Holdings has agreed to sell, the entire equity interest in Weichai Import and Export at the consideration of approximately RMB313.75 million (equivalent to approximately HK\$381.56 million).

Consideration

The consideration (the “**Consideration**”) for the Acquisition is approximately RMB313.75 million (equivalent to approximately HK\$381.56 million), which was determined after arm’s length negotiation between the parties to the Equity Transfer Agreement based on the appraised value of Weichai Import and Export of approximately RMB322.42 million as at the Valuation Reference Date as set out in the Valuation Report, and adjusted by deducting an amount equivalent to the final dividend of approximately RMB8.66 million declared and paid by Weichai Import and Export to its shareholder in June 2021.

The Consideration shall be payable by the Company to Weichai Holdings in cash within thirty working days after the date of the Equity Transfer Agreement. The Consideration is expected to be funded out of the Group’s financial resources.

Completion

Within 20 working days of the full settlement of the Consideration, the Company and Weichai Holdings shall assist Weichai Import and Export in handling the relevant industrial and commercial registration procedures on the transfer of the entire equity interest in Weichai Import and Export from Weichai Holdings to the Company. Completion of the Acquisition shall take place upon completion of such registration procedures.

III. VALUATION

The appraised value of Weichai Import and Export 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.
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.

Specific assumptions

1. It is assumed that 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.
2. It is assumed that the operators of Weichai Import and Export are responsible, and the management of Weichai Import and Export is able to perform their duties.
3. Unless otherwise stated, it is assumed that Weichai Import and Export has fully complied with all relevant laws and regulations.
4. It is assumed that the accounting policies adopted in the future by Weichai Import and Export 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 Import and Export's existing management approach and standard, the business scope and approach are in line with the current direction.
6. It is assumed that there are no material changes in the interest rates, exchanges rates, taxation benchmark and rates, and policy levy.
7. It is assumed that there are no other force majeure or unforeseeable factors that may give rise to material adverse impact on Weichai Import and Export.
8. It is assumed that the cash flows of Weichai Import and Export in the years covered by the Forecast are even cash inflow and cash outflow.
9. It is assumed that after the Valuation Reference Date, other than for self-supported import (自營進口), there is a trend of stable growth in respect of purchase export (收購出口) and self-supported export (自營出口).
10. It is assumed that Weichai Import and Export's income, cost, and expense levels in its perpetual period are consistent with those as of 2026.
11. It is assumed that the size of the premises used by Weichai Import and Export as office remain unchanged and the rent is calculated based on the average market price within the same region.
12. It is assumed that the product mix of Weichai Import and Export following the adjustment in year 2021 will remain basically stable thereafter with no major changes.

The Valuer is of the view that the assumptions above are present as at the Valuation Reference Date based on the requirements of the income approach for valuation of Weichai Import and Export, and reached the conclusion of the valuation based on these assumptions. The result of valuation will change significantly if there is material change in the future economic environment or if other assumptions 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, 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 Weichai Import and Export issued by the Valuer.

A report from Deloitte on the arithmetical accuracy of the calculations of the cash flows forecast underlying the Forecast and letter from the Board in relation to the Forecast are set out as Appendix I and Appendix II to this announcement, respectively.

The qualifications of the Valuer and Deloitte Touche Tohmatsu Certified Public Accountant LLP are as follows:

Name	Qualification
山東中評恒信資產評估有限公司 (Shandong Zhongping Hengxin Asset Valuation Co., Ltd.*)	Professional valuer in the PRC
Deloitte Touche Tohmatsu Certified Public Accountant LLP	Certified public accountants

To the best knowledge, information and belief of the Board after having made all reasonable enquiries, each of the Valuer and Deloitte is a third party independent of the Group and is not a connected person of the Company. As at the date of this announcement, neither the Valuer nor Deloitte has any shareholding, directly or indirectly, in any member of the Group or any right (whether legally enforceable or not) to subscribe for or to nominate person(s) to subscribe for securities in any member of the Group.

Each of the Valuer and Deloitte has given and has not withdrawn its written consent to the publication of this announcement with inclusion of its opinion and advice and all references to its name in the form and context in which it appears in this announcement.

IV. INFORMATION ON WEICHAI IMPORT AND EXPORT

Weichai Import and Export is a limited company established in the PRC. As at the date of this announcement, it is held by Weichai Holdings as to 100% and is accounted for as a subsidiary of Weichai Holdings. Weichai Import and Export is principally engaged in the import and export of certain products including diesel engine and its parts and components and the provision of the relevant service.

Set out below is the audited financial information of Weichai Import and Export for the two financial years ended 31 December 2019 and 31 December 2020 and the four months ended 30 April 2021 prepared based on the generally accepted accounting principles of the PRC:

	For the four months ended 30 April 2021	For the year ended 31 December 2020	For the year ended 31 December 2019
	<i>RMB'million (audited)</i>	<i>RMB'million (audited)</i>	<i>RMB'million (audited)</i>
Revenue	939.45	2,315.29	2,088.15
Net profits before taxation	2.40	12.91	28.25
Net profits after taxation	1.79	9.63	21.09

Based on the audited financial information of Weichai Import and Export prepared based on the generally accepted accounting principles of the PRC, as of 30 April 2021, the audited net asset value of Weichai Import and Export was approximately RMB268.66 million.

Insofar as the Company is aware, the original cost of investment incurred by Weichai Holdings in respect of the entire equity interest of Weichai Import and Export amounted to RMB20 million.

Following completion of the above Acquisition, the Company will become the holder of the entire equity interest of Weichai Import and Export, and Weichai Import and Export will be accounted for as a subsidiary of the Company.

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.

As mentioned above, Weichai Import and Export is principally engaged in the import and export of certain products including diesel engine parts and components and the provision of the relevant service. The Board is of the view that the Acquisition is in line with the Company's strategy to further cultivate the international market and is also expected to generate synergy effect for the Company and Weichai Import and Export.

In light of the above, 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 is beneficial to the long-term business strategy of the Group.

VI. INFORMATION ON WEICHAH 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 the Shandong Provincial People's Government.

VII. THE LISTING RULES IMPLICATIONS

Weichai Holdings holds approximately 16.30% of the total issued share capital of the Company. As such, Weichai Holdings is a substantial shareholder of the Company and, in turn, a connected person of the Company. Therefore, the Acquisition constitutes a connected transaction of the Company under Chapter 14A of the Listing Rules.

As the highest applicable percentage ratio calculated pursuant to the Listing Rules for the Acquisition is more than 0.1% but all of which are less than 5%, the Acquisition is subject to the reporting, announcement and annual review requirements under Chapter 14A of the Listing Rules but is exempt from the independent Shareholders' approval requirement.

At the Board meeting held on 29 October 2021 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 Weichai Holdings and/or Weichai Import and Export. Save as disclosed above, none of the Directors has a material interest in the Acquisition.

VIII. DEFINITIONS

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

“Acquisition”	the acquisition by the Company of the entire equity interest in Weichai Import and Export by the Company from Weichai Holdings
“Board”	the board of Directors
“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
“Consideration”	has the meaning ascribed thereto under the section headed “II. Principal terms of the Acquisition – Consideration” of this announcement
“Deloitte”	Deloitte Touche Tohmatsu Certified Public Accountant LLP
“Director(s)”	the director(s) of the Company
“Equity Transfer Agreement”	the equity transfer agreement entered into between the Company, Weichai Holdings and Weichai Import and Export on 29 October 2021 in respect of the Acquisition

“Forecast”	has the meaning ascribed thereto under the section headed “III. Valuation” of this announcement
“Group”	the Company and its subsidiaries
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange
“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
“Shareholder(s)”	holder(s) of the shares in the Company
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Valuation Reference Date”	30 April 2021, being the reference date adopted by the Valuer in the valuation of Weichai Import and Export in the Valuation Report
“Valuation Report”	the valuation report dated 20 June 2021 issued by the Valuer in respect of the total appraised value of Weichai Import and Export for the purpose of the Acquisition, which is prepared adopting an income approach
“Valuer”	山東中評恒信資產評估有限公司 (Shandong Zhongping Hengxin Asset Valuation 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 Import and Export”

山東濰柴進出口有限公司 (Shandong Weichai Import and Export Co., Ltd.*), a company established in the PRC wholly-owned by Weichai Holdings and a connected person of the Company

“%”

per cent.

* For identification purposes only

(The exchange rate used for the purpose of this announcement is HK\$1= RMB0.82228.)

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

The PRC, 29 October 2021

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.

APPENDIX I – REPORT FROM THE REPORTING ACCOUNTANTS

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

INDEPENDENT ASSURANCE REPORT ON THE CALCULATIONS OF DISCOUNTED FUTURE ESTIMATED CASH FLOWS IN CONNECTION WITH THE VALUATION OF THE ENTIRE EQUITY INTEREST IN WEICHAI IMPORT AND EXPORT

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 Shandong Zhong Ping Heng Xin Assets Valuation Co., Ltd. (山東中評恒信資產評估有限公司) dated 20 June 2021, of the entire equity interest in Weichai Import and Export as at 30 April 2021 (the “Valuation”) is based. Weichai Import and Export is a company incorporated in the People’s Republic of China whose principal asset are accounts receivables and cash. 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 29 October 2021 to be issued by Weichai Power Co., Ltd. (the “Company”) in connection with the acquisition of the entire equity interest in Weichai Import and Export (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 Import and Export.

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

29 October 2021

APPENDIX II – 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)

29 October 2021

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

Dear Sirs,

CONNECTED TRANSACTION

ACQUISITION OF THE ENTIRE EQUITY INTEREST IN WEICHAI IMPORT AND EXPORT

We refer to the announcement of the Company dated 29 October 2021 (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 20 June 2021 issued by 山東中評恒信資產評估有限公司 (Shandong Zhongping Hengxin Asset Valuation Co., Ltd.), an independent professional valuer in the PRC (the “**Valuer**”) in relation to the valuation (the “**Valuation**”) of 山東濰柴進出口有限公司 (Shandong Weichai Import and Export Co., Ltd.) (“**Weichai Import and Export**”) 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