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WEICHAI

濰柴動力股份有限公司

WEICHAI POWER CO., LTD.

(Stock Code: 2338)

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

CONNECTED TRANSACTION

SUMMARY

The Company is pleased to announce that it has entered into the Framework Agreement with 中國重型汽車集團有限公司 (China Heavy Duty Truck Group Co., Ltd.), under which CHDTGL will permit the Company to conduct due diligence in relation to Hangqi, and grant an exclusive right to the Company to acquire the assets of Hangqi, but the form and scope of the acquisition of which have not been decided. Under the Framework Agreement, the Company will pay a refundable deposit of RMB80,000,000 to CHDTGL.

The Company believes that Hangqi's assets represent a rare synergistic acquisition opportunity for the Company to grow its business, as they will provide the Company with an opportunity to develop a production hub in Zhejiang Province, which is one of the fastest growing provinces in China, and allow the Company to better coordinate its sales network in China.

General

Since CHDTGL is the holding company of Weichai Factory, which is a substantial shareholder and promoter of the Company, the payment of the Deposit constitutes a connected transaction of the Company under Chapter 14A of the Listing Rules. However, as the Deposit is less than 2.5% of each of the percentage ratios (other than the profits ratio), the payment of the Deposit is only subject to the reporting and announcement requirements set out in Rules 14A.45 to 14A.47 and is exempt from the independent shareholders' approval requirement of Chapter 14A of the Listing Rules. In the event that the Company decides to purchase any of Hangqi's assets, the Company will comply with, where relevant, the disclosure, independent shareholders' approval and other relevant requirements of the Listing Rules.

A. FRAMEWORK AGREEMENT

A summary of the principal terms of the Framework Agreement is as follows:

Date

The Framework Agreement was entered into on 27th September, 2004.

Parties

1. CHDTGL
2. The Company

Objective

CHDTGL will permit the Company to conduct due diligence in relation to Hangqi, and grant an exclusive right to the Company to acquire the assets of Hangqi, but the form and scope of the acquisition of which have not been decided. After the Company has completed its due diligence on Hangqi and if it decides to purchase any assets of Hangqi, the Company, CHDTGL and Hangqi will enter into formal documentation in relation thereto.

Certain principal obligations of the parties

1. CHDTGL
 - (i) To permit the Company to conduct due diligence in relation to Hangqi
 - (ii) To grant an exclusive right (for a period from the date of the Framework Agreement to 31st December, 2005) to the Company to acquire the assets of Hangqi, the scope and form of the acquisition of which will be determined by the Company
 - (iii) To agree (and/or to procure Hangqi) to provide such services (including, for example, supply and/or connection of utilities, provision of processing services, supply of components, etc.) to the Company on normal commercial terms and at market prices (if any) after the Company's completion of the acquisition of the relevant assets, as the Company may require in order to enable the Company to operate such assets
2. The Company To pay the Deposit to CHDTGL, which is refundable, inter alia, in the following circumstances:
 - (a) if the Company does not consider the results of the due diligence to be satisfactory
 - (b) if, according to PRC law, the acquisition requires the obtaining of any approval from any PRC governmental body, responsible authority, creditors, mortgagees, any party with whom CHDTGL or Hangqi has entered into contract or banking facilities lenders, or any entity whose approval, or filing with which, is considered by the Company to be necessary, and such approval is not obtained or such filing is not effected
 - (c) if the acquisition requires the approval of, inter alia, the independent shareholders of the Company at an extraordinary general meeting to be convened, and such approval is not obtained

Consideration

The amount of consideration payable by the Company for the acquisition of the relevant assets of Hangqi will be determined by CHDTGL and the Company, and with reference to an independent valuation to be commissioned by the Company and CHDTGL. Payment of the Deposit will be financed by the Company's internal resources. The Company will consider its operational and financing requirements as well as the financial effects of the different types of funding methods (including, without limitation, bank borrowing, equity or other types of debt financing, its internal resources, or a combination of any of the aforesaid methods and sources), before committing to any particular type of acquisition and funding methods.

B. BACKGROUND INFORMATION ON THE CHINA HEAVY DUTY TRUCK GROUP AND HANGQI

CHDTGL is a PRC state-owned enterprise and the China Heavy Duty Truck Group is principally engaged in, inter alia, the manufacture of heavy-duty vehicles, coaches and vehicle parts. Hangqi is wholly-owned by CHDTGL. Hangqi is located in Hangzhou City, the capital of Zhejiang Province, the PRC, and is principally engaged in the manufacture of diesel engines, which are mainly used in heavy-duty trucks, large, medium and small-sized coaches/passenger cars, power generators and vessels. CHDTGL wholly owns Weichai Factory, which in turn holds approximately 23.5% of the issued share capital of the Company.

C. BACKGROUND INFORMATION ON THE BUSINESS OF THE COMPANY

The Company is principally engaged in the manufacture and sale of high-speed, heavy-duty WD615 and WD618 Engines and other related parts and products. The Company manufactures four series of WD615 Engines, namely vehicle engines (for heavy-duty vehicles and coaches), construction machine engines, vessel engines and power generator engines. WD615 Engines are water-cooled, linear, 6-cylinder, turbo-charging, high-speed diesel engines, which can generate a power of 110–266 kW and have met the Euro II Standards. The Company also manufactures WD618 Engines, which are a new series of diesel engines developed based on the WD615 series. In addition to having all the major features of the WD615 Engines, WD618 Engines, with larger displacement, can generate a power of 265–323 kW. The Company's WD618 Engines have also met Euro II Standards.

D. THE REASON FOR ENTERING INTO THE FRAMEWORK AGREEMENT

As mentioned in the Company's interim report for the six months ended 30th June, 2004, whilst it is the Company's belief that the future is full of opportunities, the competitive landscape of the diesel engines market in the PRC remains challenging. In order to further strengthen and consolidate our leading positions in the 15 tonnes (and above) heavy-duty trucks and the 5 tonnes (and above) wheel-loaders markets, and explore other markets including, for example, coaches with a length of 11 metres (and above), and broaden our customer base, the Company will, as stated in the Prospectus, grow its business by a combination of, inter alia, further development of its core business as well as through synergistic acquisitions.

The Company has also indicated in the Prospectus that it has a right of first refusal to purchase, and in its interim report for the six months ended 30th June, 2004 that it may purchase, Hangqi's assets in the future.

As regards our efforts in further developing our core business, the Company's second new production line with an annual production capacity of over 30,000 units of diesel engines is expected to commence commercial production in the second quarter of 2005. However, at the same time, the Directors believe that it is also in the Company's interest that the Company grows its production capacity, and hence its business, by synergistic acquisition. In view of the fact that certain product types of Hangqi are similar to those of the Company, the Directors believe that Hangqi's assets represent a rare synergistic acquisition opportunity for the Company to grow its business, as they will provide the Company with an opportunity to develop a production hub in Zhejiang Province, which is one of the fastest growing provinces in China, and allow the Company to better coordinate its sales network in China.

The Directors (including the independent non-executive Directors) consider the terms of the Framework Agreement to be fair and reasonable and in the interests of the Shareholders as a whole. The consideration payable for Hangqi's assets, which according to PRC law, is subject to valuation and, if required by PRC law, is also subject to receiving the approval of the relevant 國有資產管理部門 (state-owned assets administration authority), because CHDTGL is a state-owned enterprise. The Company will consider its operational and financing requirements as well as the financial effects of the different types of funding methods (including, without limitation bank borrowing, equity or other types of debt financing, its internal resources, or a combination of any of the aforesaid methods and sources), before committing to any particular type of acquisition and funding methods, and entering into formal agreement to purchase such assets. Payment of the Deposit will be financed by the Company's internal resources.

E. GENERAL INFORMATION AND LISTING RULES IMPLICATIONS

Since CHDTGL is the holding company of Weichai Factory, which is a substantial shareholder and promoter of the Company, the payment of the Deposit constitutes a connected transaction of the Company under Chapter 14A of the Listing Rules. However, as the Deposit is less than 2.5% of each of the percentage ratios (other than the profits ratio), the payment of the Deposit is only subject to the reporting and announcement requirements set out in Rules 14A.45 to 14A.47 and is exempt from the independent shareholders' approval requirement of Chapter 14A of the Listing Rules. In the event that the Company decides to purchase any of Hangqi's assets, the Company will comply with, where relevant, the disclosure, independent shareholders' approval and other relevant requirements of the Listing Rules. Based on the Company's management's preliminary inspection and internal evaluation of Hangqi, the Company estimates that the potential acquisition may constitute a discloseable and connected transaction of the Company under the Listing Rules. However, since the scope and form of the acquisition of Hangqi's assets have not been determined, the Company is unable at this stage to anticipate in which category of notifiable transactions the potential acquisition may fall. In the event that the potential acquisition materializes the Company will comply with the relevant disclosure and/or shareholders' approval requirements for notifiable transactions under the Listing Rules.

F. DEFINED TERMS USED IN THIS ANNOUNCEMENT

In this announcement, the following expressions have the meanings set out below unless the context requires otherwise:

“Board”	the board of Directors
“CHDTGL”	中國重型汽車集團有限公司 (China Heavy Duty Truck Group Co., Ltd.), a State-owned enterprise. Since Weichai Factory is a substantial shareholder and promoter of the Company (and is accordingly a connected person of the Company) and CHDTGL is the holding company of Weichai Factory, CHDTGL is also a connected person of the Company
“China Heavy Duty Truck Group”	CHDTGL and its subsidiaries. The China Heavy Duty Truck Group (other than the Weichai Factory group of companies) are engaged in, inter alia, the manufacture of coaches, heavy-duty vehicles and vehicle parts
“Company”	濰柴動力股份有限公司 (Weichai Power Co., Ltd.), a joint stock limited company incorporated in the PRC with limited liability
“Deposit”	RMB80,000,000 (HK\$75,379,252)*
“Director(s)”	director(s) of the Company
“Engine(s)”	WD615 Engine(s) and/or WD618 Engine(s), as the context may require
“Euro II Standards”	the set of standards that limits the emission of carbon monoxide at 4.0 g/kWh, hydrocarbons at 1.1 g/kWh, nitrogen oxides at 7.0 g/kWh, and particulate matters at 0.15 g/kWh
“Hangqi”	杭州汽車發動機廠 (Hangzhou Motor Engine Factory), a legal person established in the PRC
“Listing Rules” or “Rule(s)”	the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited
“percentage ratio(s)”	shall have the meaning set out in Rule 14.04
“PRC” or “China”	the People’s Republic of China, which, for the purpose of this announcement, unless otherwise specified, excludes the Hong Kong Special Administrative Region of the PRC, the Macau Special Administrative Region of the PRC and Taiwan
“profits ratio”	shall have the meaning set out in Rule 14.07
“Prospectus”	the prospectus issued by the Company and dated 26th February, 2004
“RMB”	Renminbi, the lawful currency of the PRC
“Share(s)”	shares of the Company
“Shareholder(s)”	holder(s) of Share(s)

“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Weichai Factory”	濰坊柴油機廠 (Weifang Diesel Engine Works), a legal person established in the PRC
“WD615” or “WD615 Engine(s)”	the water-cooled, linear, 6-cylinder, turbo-charging, direct-injection high-speed diesel engine(s) with a displacement of 9.726 litres, manufactured by the Company
“WD618” or “WD618 Engine(s)”	a series of diesel engines developed based on the WD615 series with a displacement of 11.596 litres, manufactured by the Company

* This RMB amount has been translated into Hong Kong dollars for information purpose at the rate of HK\$1.00=RMB1.0613, being the rate determined by the People’s Bank of China on 23rd September, 2004.

By order of the Board
Tan Xuguang
Chairman and Chief Executive Officer

Hong Kong 27th September, 2004

As at the date of this announcement, the Board comprises the following executive Directors: Mr. Tan Xuguang, Mr. Xu Xinyu, Mr. Sun Shaojun and Mr. Zhang Quan; the following non-executive Directors: Ms. Zhang Fusheng, Mr. Chen Xue Jian, Mr. Tong Jingen, Mr. Yeung Sai Hong, Mr. Li San Yim, Mr. Yao Yu and Mr. Julius G. Kiss; and the following independent non-executive Directors: Mr. Zhang Xiaoyu and Mr. Koo Fook Sun, Louis.

*Please also refer to the published version of this announcement in the (**The Standard**)*