WEICHAI

# 濰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)**

## ANNOUNCEMENT

This announcement is made by Weichai Power Co., Ltd. (the "Company") pursuant to Rule 13.09 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited.

The Company has not received any order from the CHDTGL Group (as defined below) for January 2006. In the past few years, the CHDTGL Group was one of the five largest customer groups for the Company's diesel engines for heavy-duty trucks.

The heavy-duty trucks market experienced a significant decline in 2005 (as compared with 2004) in China, and the Company's unit sales volume of diesel engines for use in heavy-duty trucks during the same period was similarly affected. The Company's sales volume of diesel engines (for all product types in aggregate) exceeded 100,000 units (unaudited) in 2005. The Company has received aggregate indicative orders for diesel engines for 2006 in excess of the actual number of the diesel engines sold by the Company in 2005 (based on unaudited figures).

Trading in the H shares of the Company ("H Shares") was suspended at 9:30 a.m. on 16th January, 2006 pending the release of this announcement. Trading in the H Shares will resume at 9:30 a.m. on 19th January, 2006.

This announcement is made by Weichai Power Co., Ltd. (the "Company") pursuant to Rule 13.09 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited.

In the past few years, 中國重型汽車集團有限公司 (China Heavy Duty Truck Group Co., Ltd.) ("CHDTGL"), being the ultimate owner of the single largest shareholder of the Company, and its subsidiaries (together, the "CHDTGL Group", but, for the purposes of this announcement, references to "CHDTGL Group" do not include 濰坊柴油機廠 (Weifang Diesel Engine Works) and its subsidiaries) were one of the five largest customer groups for the Company's diesel engines for heavy-duty trucks, but the CHDTGL Group did not source diesel engines exclusively from the Company. The Company sold approximately 41,000 diesel engines to the CHDTGL Group in 2004, representing approximately 30.5% of the total number of the diesel engines sold by the Company in that year. For the year ended 31st December, 2004, the Company's purchases from, and sales to, the CHDTGL Group were approximately RMB62.6 million and RMB1,722.6 million, respectively, and representing approximately 1.4% of the Company's cost of sales and approximately 28.0% of the Company's turnover in 2004.

It is a practice of the major customers of the Company to place orders for their products approximately one month in advance. As of the date of this announcement, the Company has not received any order from the CHDTGL Group for January 2006. The Company would like to clarify that the Company has never announced or indicated that it would stop supplying products to the CHDTGL Group and the Company has never stopped supplying products to the CHDTGL Group to meet its orders. The Company has been actively pursuing opportunities to discuss with CHDTGL regarding the CHDTGL Group's order details for

2006, but, as of the date of this announcement, the Company has not received any positive response from CHDTGL. To the extent that the Company has supplied diesel engines to the CHDTGL Group, the CHDTGL Group has been settling the Company's invoices in accordance with the relevant payment and credit terms.

As disclosed in the Company's prospectus dated 26th February, 2004 (the "Prospectus") and the Company's circulars dated 27th October, 2004 and 20th October, 2005, the Company also sourced certain diesel engine parts from the CHDTGL Group for the manufacture of the Company's diesel engines. The Company has not experienced any difficulty in sourcing diesel engine parts recently. Since the Company has been sourcing such diesel engine parts from a few suppliers and at market prices, and such parts can be easily obtained in the market, the Company believes that even if the CHDTGL Group stops supplying such parts to the Company, the Company can obtain alternative supplies in the market without any interruption to its production and the Company's relationship with its other customers will not be affected.

Reference is made to the announcement of the Company dated 3rd January, 2006, in which it was announced that the Company entered into a framework agreement (the "Framework Agreement") with CHDTGL on 27th September, 2004 in relation to the proposed acquisition of 杭州汽車發動機廠 (Hangzhou Motor Engine Factory) ("Hangqi"); under the Framework Agreement, CHDTGL permitted the Company to conduct due diligence in relation to Hangqi, and granted, and undertook to procure that Hangqi would grant, an exclusive and irrevocable right to the Company to acquire the assets of Hangqi, which right had already expired on 31st December, 2005. As disclosed in the Prospectus, Hangqi "*is principally engaged in the manufacture of X6130, WD615 and WD612 series diesel engines, which are mainly used in heavy-duty trucks, large, medium and small-sized coaches/passenger cars, power generators and vessels. Accordingly, the business of Hangqi competes with that of the Company to a certain extent as the China Heavy Duty Truck Group is the major customer of both the Company and Hangqi for their WD615 Engines*". Although the reorganisation of CHDTGL is still in progress, the Company has issued a number of formal requests to CHDTGL to urge it to implement the Framework Agreement. As of the date of this announcement, the Company has not received any positive response from CHDTGL. In the event that the Company cannot reach any agreement with CHDTGL in this regard, the Company is confident that the Company's production will not be affected. Should the parties reach any conclusion in this regard, the Company will make a further announcement. If the Framework Agreement is not completed, the Company is confident that it will receive a refund of the RMB80 million deposit paid by it under the Framework Agreement. Save as set out above, the Company is not aware of any discord between the Company and CHDTGL.

With regard to certain recent newspaper articles reporting that the Shandong Provincial Government was planning to sever the shareholding relationship between the Company and CHDTGL, the Company is not aware of the source of such information, nor has the Company received any notification from the Shandong Provincial Government to that effect.

In view of the significant decline in the heavy-duty trucks market (in terms of unit sales volume of heavy-duty trucks) in 2005, as compared with that in 2004, in China, the Company's sales volume of diesel engines for use in heavy-duty trucks (in terms of the number of engines sold) during the same period was similarly affected. The Company's sales volume of diesel engines (for all product types in aggregate) exceeded 100,000 units (unaudited) in 2005. In the event that the CHDTGL Group shall cease to purchase the Company's diesel engines, and to the extent that the Company cannot increase its sales to other existing and/or new customers, the Company's results may be adversely affected.

As of the date of this announcement, the aggregate of the indicative orders for diesel engines for 2006 received by the Company from its customers have exceeded the actual number of diesel engines sold by the Company in 2005 (based on unaudited figures), and the said 2006 indicative orders (subject to the actual orders to be placed by the customers during the year) for diesel engines for construction machines, coaches, vessels and power generators as well as for exports show different degrees of growth when compared with the number of such diesel engines sold by the Company in 2005. As a matter of market practice, since such orders cover the whole year of 2006, they are only indicative in nature and are prepared mainly for budgeting and production purposes, and, as described above, are subject to the actual orders to be placed by the customers monthly in advance during the year. **Accordingly, investors are advised to exercise caution when considering or assessing such indicative orders and they should not place undue reliance on such indicative orders.**

Trading in the H shares of the Company ("H Shares") was suspended at 9:30 a.m. on 16th January, 2006 pending the release of this announcement. Trading in the H Shares will resume at 9:30 a.m. on 19th January, 2006.

By order of the Board
**Tan Xuguang**
*Chairman*

Hong Kong 18th January, 2006

*As at the date of this announcement, the executive directors of the Company are Mr. Tan Xuguang, Mr. Xu Xinyu, Mr. Sun Shaojun and Mr. Zhang Quan; the non-executive directors of the Company are Mr. Yeung Sai Hong, Mr. Yao Yu, Mr. Li San Yim, Mr. Tong Jingen, Ms. Zhang Fusheng, Mr. Julius G. Kiss and Ms. Han Xiaoqun and Mr. Chen Xue Jian; and the independent non-executive directors of the Company are Mr. Zhang Xiaoyu, Mr. Koo Fook Sun, Louis and Mr. Fang Zhong Chang.*

*Please also refer to the published version of this announcement in* ***South China Morning Post.***