



**WEICHAI**

**潍柴动力股份有限公司**

**WEICHAI POWER CO., LTD.**

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

**(Stock Code: 2338)**

**Announcement pursuant to Rule 13.09(1) of the Listing Rules**

**SUMMARY**

This announcement is issued pursuant to Rule 13.09(1) of the Listing Rules.

The Board is pleased to announce that on 31 August 2006, the Board and the TAGC Board respectively resolved to approve, in principle, the Merger Proposal concerning the Company, InvestCo and TAGC, subject to the Company and TAGC entering into the Merger Agreement and the satisfaction of various conditions (including, among other things, obtaining the approvals of the CSRC and other regulatory bodies of the PRC, the approvals of the shareholders of the Company and TAGC in the manner referred to below). The implementation of the Merger Proposal will involve the issue of new Weichai A Shares (which will have the same voting right as the Company's H Shares) by the Company at the Exchange Ratio to the TAGC Shareholders (other than InvestCo) on a record date to be determined, as consideration for the cancellation of the respective TAGC Shares held by them, and TAGC's assets will be absorbed into, and its liabilities will be assumed by, the Company. InvestCo and TAGC will then cease to exist.

The Exchange Ratio, subject to below, on a preliminary basis, is that one Weichai A Share will be issued by the Company for 3.53 TAGC Shares held by the TAGC Shareholders (other than InvestCo) on a record date to be determined by the Company and TAGC. Under the Merger Proposal, Zhuzhou State Assets Co will transfer (by way of gift) a part of its holding of TAGC Shares to the TAGC Public Shareholders at the rate (subject to change) of 0.35 TAGC Share for every 10 TAGC Shares held, and such TAGC Shares so transferred by way of gift will also be exchanged for new Weichai A Shares at the Exchange Ratio. The said gift of TAGC Shares by Zhuzhou State Assets Co and issue of Weichai A Shares under the Merger Proposal will be completed at the same time. Subject to below, the Merger Proposal will be accompanied by a cash alternative to the TAGC Public Shareholders who elect not to receive in whole (or in part) their entitlements to Weichai A Shares at the rate (subject to change) of RMB5.05 per TAGC Share, subject to the Merger Proposal becoming unconditional. Although InvestCo holds approximately 28.12% of TAGC's issued shares, InvestCo will elect not to receive any Weichai A Shares or cash payment under the cash alternative to be offered under the Merger Proposal.

For the purpose of the Merger Proposal, TAGC needs to comply with the applicable regulations and procedures concerning the Guidelines and Guidance Opinions such that, after the release of the PRC Announcement, for a period of 10 days, TAGC is required to hold discussions with its shareholders concerning the Merger Proposal and during such period trading in the TAGC Shares on the Shenzhen Stock Exchange will be suspended, and then the price of the TAGC Shares and the new Weichai A Shares for the purpose of determining the Exchange Ratio, the Zhuzhou State Assets Co Gift Rate and the Cash Alternative Amount will be fixed. **Therefore, the above Exchange Ratio is subject to change.**

Subject to the satisfaction of the conditions referred to below, the Weichai A Shares will be listed on the Shenzhen Stock Exchange. In addition, both the Domestic Shares and Foreign shares will also become listed on the Shenzhen Stock Exchange and rank pari passu in all respect as the Weichai A Shares. The H Shares will continue to be listed on the Hong Kong Stock Exchange.

In the event that the Merger Agreement is entered into and the Merger Proposal, if implemented, becomes unconditional and is completed, based on the relevant facts and information prevailing as at the date of this announcement, the Merger Proposal will constitute a very substantial acquisition of the Company under Chapter 14 of the Listing Rules. Accordingly, if and when the Merger Agreement is entered into, the Company will notify the Hong Kong Stock Exchange, and issue a further announcement and a circular containing the particulars required by the Listing Rules concerning very substantial acquisition to the holders of the H Shares and obtain the approvals of the shareholders of the Company in general meeting and a separate shareholders' class meeting of the holders of the H Shares. However, the Merger Proposal will not constitute a reverse takeover under Chapter 14 of the Listing Rules.

**No agreement in relation to the Merger Proposal has yet been entered into. Since the Merger Proposal is subject to the parties agreeing the terms of and entering into the Merger Agreement (which will then determine the final terms and conditions of the Merger Proposal) and the fulfillment of the other conditions stated herein, the Merger Proposal may not be proceeded with or become unconditional or effective. There is no assurance that the Merger Agreement will be entered into and that all the conditions precedent contained in the Merger Agreement can be satisfied. Investors and potential investors in H Shares should exercise care, and they should only rely on information published by the Company (and they should not rely on any information that may be disseminated from the TAGC Discussions and which is not published by the Company), when they deal, or contemplate dealing, in the H Shares or other securities of the Company.**

Trading in the H Shares was suspended at 9:30 a.m. on 21 August 2006. Suspension in the trading of the H Shares continues until further announcement. When the Exchange Ratio, the Zhuzhou State Assets Co Gift Rate and the Cash Alternative Amount are determined, an announcement will be released.

## I. BACKGROUND

The Board refers to the announcement of the Company dated 10 November 2005 in relation to the completion of the acquisition by InvestCo of an approximately 28.12% of the issued shares in TAGC. In that announcement, it was stated that TAGC, being a Shenzhen Stock Exchange listed company, had announced its 股權分置改革方案 (split share structure reform proposal) (the “**Share Split Reform Proposal**”) pursuant to 《國務院關於推進資本市場改革開放和穩定發展的若干意見》 (Guidelines of the State Council for Promoting the Reform and Opening-up and Sustained Development of the Capital Market) promulgated by the State Council, 《關於上市公司股權分置改革的指導意見》 (Guidance Opinions on the Split Share Structure Reform of Listed Companies) and 《上市公司股權分置改革管理辦法》 (Administrative Measures on the Split

Share Structure Reform of Listed Companies) promulgated by the CSRC and other related rules, measures and regulations (together referred to below as the “**Guidelines and Guidance Opinions**”). That Share Split Reform Proposal was not approved by TAGC’s shareholders.

The Board further refers to the circular of the Company dated 14 June 2006 in relation to the Company’s acquisition of further equity interest in InvestCo and the announcement of the Company dated 30 June 2006 announcing that the Company’s shareholders at the annual general meeting of the Company held on 30 June 2006 had approved such acquisition. InvestCo has become a wholly owned subsidiary of the Company, and the Company through InvestCo, is indirectly interested in approximately 28.12% of the issued shares of TAGC.

## II. THE MERGER PROPOSAL

The Board is pleased to announce that on 31 August 2006, the Board and the TAGC Board respectively resolved to approve, in principle, the Merger Proposal concerning the Company, InvestCo and TAGC, subject to the Company and TAGC entering into the Merger Agreement and the satisfaction of various conditions.

A summary of the salient features of the Merger Proposal is as follows:

<b>Objective:</b>	To implement the Merger Proposal
<b>Consideration/Share Exchange Ratio:</b>	New Weichai A Shares (having the same voting right as the Company’s H Shares) will be issued as consideration for the cancellation of the TAGC Shares held by the TAGC Shareholders (other than InvestCo).

The Exchange Ratio, subject to adjustment as referred to below, on a preliminary basis, is that one Weichai A Share will be issued by the Company for 3.53 TAGC Shares held by the TAGC Shareholders (other than InvestCo) on a record date to be determined by the Company and TAGC.

Zhuzhou State Assets Co will transfer (by way of gift) a part of its holding of TAGC Shares to the TAGC Public Shareholders at the rate (subject to change as referred to below) of 0.35 TAGC Share for every 10 TAGC Shares held (the “**Zhuzhou State Assets Co Gift Rate**”), and such TAGC Shares so transferred by way of gift will also be exchanged for new Weichai A Shares at the Exchange Ratio.

The above gift of TAGC Shares by Zhuzhou State Assets Co and issue of Weichai A Shares under the Merger Proposal will be completed at the same time.

Subject to below, the Merger Proposal will be accompanied by a cash alternative to the TAGC Public Shareholders who elect not to receive in whole (or in part) the Weichai A Shares at the rate (subject to change) of RMB5.05 per TAGC Share (the “**Cash Alternative Amount**”), subject to the Merger Proposal becoming unconditional. Zhuzhou State Assets Co has agreed that it will not elect the cash alternative.

For the purpose of the Merger Proposal, TAGC needs to comply with the applicable regulations and procedures concerning the Guidelines and Guidance Opinions such that, upon the release of the PRC Announcement, during the TAGC Consultation Period, TAGC is required to hold discussions with its shareholders concerning the Merger Proposal and during such period trading in the TAGC Shares on the Shenzhen Stock Exchange will be suspended, and then the price of the TAGC Shares and the new Weichai A Shares for purpose of determining the Exchange Ratio, the Zhuzhou State Assets Co Gift Rate and the Cash Alternative Amount will be fixed. **Therefore, the above Exchange Ratio is subject to change.**

Although InvestCo holds approximately 28.12% of TAGC's issued shares, InvestCo will elect not to receive any Weichai A Shares or cash payment under the cash alternative to be offered under the Merger Proposal.

**Conditions precedent:** The Merger Proposal is conditional on:

1. TAGC and the Company entering into the Merger Agreement (which will then determine the final terms and conditions of the Merger Proposal);
2. the approval of the shareholders' meeting of the Company and of a separate shareholders' class meeting of the Company for the holders of the H Shares by a two-third majority;
3. the approval of the shareholders' meeting of TAGC (at which InvestCo shall not vote) and of a separate shareholders' class meeting of TAGC for the TAGC Public Shareholders by a two-third majority;
4. the compliance by the Company with the requirements of the Listing Rules;
5. the Shenzhen Stock Exchange's agreeing to grant listing to the Weichai A Shares, the Domestic Shares and the Foreign Shares;
6. the requisite consents and approvals having been obtained from the relevant governmental and regulatory authorities in the PRC (including, without limitation, the CSRC, MOC, Shandong SASAC, Hunan SASAC and Shenzhen Stock Exchange);
7. the Company having secured the provider of the requisite financial resources for the purpose of funding the cash alternative to those TAGC Public Shareholders (if any) who elect not to receive in whole (or in part) the Weichai A Shares offered under the Merger Proposal; and
8. the results of the due diligence exercise on the TAGC Group being satisfactory to the Company.

- Long stop date:** If the Merger Proposal is not completed within one year from the date the last of the shareholders' meetings of the Company and TAGC has passed all the requisite resolutions in respect thereof, the Merger Proposal will lapse.
- Others:** Both the Domestic Shares and Foreign Shares of the Company will be listed on the Shenzhen Stock Exchange and they rank pari passu in all respects with the Weichai A Shares. Weichai Factory, Weifang Investment and Zhuzhou State Assets Co have undertaken that they will not dispose of, or appoint other person to manage, their respective Weichai A Shares within a period of 36 months from the date such Weichai A Shares become listed on the Shenzhen Stock Exchange.

### III. EFFECT OF THE MERGER PROPOSAL

The Merger Proposal, if implemented, involves the issue of the Weichai A Shares, on the basis of the Exchange Ratio, by the Company (which would have the same voting right as the Company's H Shares) to the TAGC Shareholders (other than InvestCo) on a record date to be determined, as consideration for the cancellation of the respective TAGC Shares held by them (unless the relevant TAGC Shareholders elect to take the cash alternative as mentioned above), and TAGC's assets will be absorbed into, and its liabilities will be assumed by, the Company, and InvestCo and TAGC will cease to exist. Subject to the approval of the Shenzhen Stock Exchange, the Weichai A Shares will be listed on the Shenzhen Stock Exchange. Both the Domestic Shares and Foreign Shares of the Company will also be listed on the Shenzhen Stock Exchange and they will rank pari passu in all respects with the Weichai A Shares. The H Shares will continue to be listed on the Hong Kong Stock Exchange.

In the event that the Merger Proposal is implemented, becomes unconditional and is completed, assuming that the Exchange Ratio and the Zhuzhou State Assets Co Gift Rate remain unchanged, and no TAGC Public Shareholders elect to receive the cash alternative (discounting the effect of fractional entitlements, if any), a maximum of 190,653,552 new Weichai A Shares will be issued under the Merger Proposal, and, on the basis of 126,500,000 H Shares in issue, such amount of H Shares will represent approximately 24.30% of the Company's total issued shares (as enlarged by the said issue of new Weichai A Shares).

### IV. THE EXCHANGE RATIO

The Exchange Ratio, subject to adjustment as referred to below, has preliminarily been determined as follows:

- (i) the per share price of the TAGC Shares is RMB5.80, subject to change (as described below), representing a premium of 14.85% over the closing price per TAGC Share of RMB5.05 as at 18 August 2006, being the last day prior to the suspension of trading in the shares of TAGC on the Shenzhen Stock Exchange pending the release of an announcement by TAGC concerning certain of the matters contained in the Merger Proposal; and
- (ii) the issue price of the new Weichai A Shares is preliminarily determined to be RMB20.47 per share, subject to change (as described below), representing a premium of approximately 4.84% (based on the exchange rate of HK\$1.00 to RMB1.02328, as quoted by The People's Bank of China on 1 September, 2006) over the closing price per H Share of HK\$19.08 as at 18 August 2006, being the last day prior to the suspension of trading in the H Shares on the Hong Kong Stock Exchange pending the release of this announcement.



and, accordingly, the preliminary Exchange Ratio for the Merger Proposal is that one Weichai A Share will be issued by the Company for 3.53 TAGC Shares held by the TAGC Shareholders on a record date to be determined by the Company and TAGC.

For the purpose of the Merger Proposal, TAGC needs to comply with the applicable regulations and procedures concerning the Guidelines and Guidance Opinions such that, after the release of the PRC Announcement, for a period of 10 days (the “**TAGC Consultation Period**”), TAGC is required to hold discussions with its shareholders concerning the Merger Proposal (the “**TAGC Discussions**”) and during such period trading in the TAGC Shares on the Shenzhen Stock Exchange will be suspended, and then the price of the TAGC Shares and the new Weichai A Shares for purpose of determining the Exchange Ratio, the Zhuzhou State Assets Co Gift Rate and the Cash Alternative Amount will be fixed. **Therefore, the above Exchange Ratio is subject to change.**

## **V. INFORMATION ON THE WEICHAI GROUP**

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

## **VI. INFORMATION ON THE TAGC GROUP**

The TAGC Group is one of China’s leading automobile groups and is principally engaged in the manufacture and sale of heavy-duty trucks and vehicle parts. TAGC ranked 18th amongst the top 500 machinery enterprises in China (中國機械工業500強) and 170th amongst the 500 largest enterprises in China (中國企業500強) in 2004. Amongst TAGC’s subsidiaries are Shaanxi Zhongqi (a 51% subsidiary of TAGC), TSPC (a 97.5% subsidiary of TAGC) and SFGC (a 51% subsidiary of TAGC).

Shaanxi Zhongqi is one of the five largest heavy duty truck manufacturers in the PRC. TSPC is the largest spark plug manufacturer in the PRC, and sells its products both domestically and to more than 20 countries and regions overseas. SFGC is the largest manufacturer of gearboxes for heavy duty trucks in the PRC. (The aforesaid information concerning the TAGC Group was extracted from published records of TAGC.)

## **VII. LISTING RULES IMPLICATIONS**

Weichai Factory currently holds 77,647,900 Domestic Shares, representing approximately 23.53% of the entire issued share capital of the Company. Other than InvestCo’s approximately 28.12% interest in TAGC, none of the Company and Weichai Factory (or any of Weichai Factory’s associates (as defined in the Listing Rules)) has any interest in the share capital of TAGC.

In the financial year of 2005, the revenues of the Company and TAGC were RMB5,250,735,000.00 and RMB7,487,387,558.14, respectively, and as at 30 June 2006, the total assets of the Company and TAGC amounted to RMB6,602,561,000.00 and RMB9,761,087,581.60, respectively. Accordingly, based on the revenue ratio and assets ratio as stipulated by the Listing Rules, the Merger Proposal (if it is implemented, becomes unconditional and is completed), based on the relevant facts and information prevailing as at the date of this announcement, will constitute a very substantial acquisition of the Company under Chapter 14 of the Listing Rules. However, the Merger Proposal will not constitute a reverse takeover under Chapter 14 of the Listing Rules.

Accordingly, if and when the Merger Agreement is entered into, the Company will notify the Hong Kong Stock Exchange, and issue a further announcement, which will be followed by a circular containing the particulars required by the Listing Rules concerning very substantial acquisition to the holders of the H Shares and obtain the approval of the shareholders of the Company in general meeting and of a separate shareholders’ class meeting of the Company for the holders of the H Shares.

No agreement in relation to the Merger Proposal has yet been entered into. Since the Merger Proposal is subject to the parties agreeing the terms of and entering into the Merger Agreement (which will then determine the final terms and conditions of the Merger Proposal) and the fulfillment of the other conditions stated herein, the Merger Proposal may not be proceeded with or become unconditional or effective. There is no assurance that the Merger Agreement will be entered into and that all the conditions precedent contained in the Merger Agreement can be satisfied. Investors and potential investors in H Shares should exercise care, and they should only rely on information published by the Company (and they should not rely on any information that may be disseminated from the TAGC Discussions and which is not published by the Company), when they deal, or contemplate dealing, in the H Shares or other securities of the Company.

Trading in the H Shares was suspended at 9:30 a.m. on 21 August 2006. Suspension in the trading of the H Shares continues until further announcement. When the Exchange Ratio, the Zhuzhou State Assets Co Gift Rate and the Cash Alternative Amount are determined, an announcement will be released.

## VIII. DEFINED TERMS USED IN THIS ANNOUNCEMENT

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

“Articles”	the articles of association of the Company
“Board”	the board of Directors
“Cash Alternative Amount”	has the meaning ascribed to it in the section headed “II. The Merger Proposal” in this announcement
“CSRC”	China Securities Regulatory Commission
“Company”	潍柴动力股份有限公司 (Weichai Power Co., Ltd.), a joint stock limited company incorporated in the PRC with limited liability
“Director(s)”	director(s) of the Company
“Domestic Shares”	the ordinary shares issued by the Company with a Renminbi denominated par value of RMB1.00 each, which are subscribed for and paid up in Renminbi or credited as fully paid up
“Enlarged Group”	the Weichai Group and the TAGC Group
“Exchange Ratio”	the preliminary ratio for the number of Weichai A Shares to be issued by the Company, based on the number of TAGC Shares held by each TAGC Shareholder (other than InvestCo) under the Merger Proposal, being the ratio of one Weichai A Share to 3.53 TAGC Shares held by the TAGC Shareholders (other than InvestCo), subject to change as referred to in the section headed “IV. The Exchange Ratio” in this announcement
“Foreign Shares”	the ordinary shares issued by the Company, with a Renminbi denominated par value of RMB1.00 each, which are subscribed for and paid up in a currency other than Renminbi
“Guidelines and Guidance Opinions”	has the meaning ascribed to it in the section headed “I. Background” in this announcement

“H Shares”	the overseas listed foreign shares in the capital of the Company with a RMB denominated par value of RMB1.00 each which are subscribed for and traded in Hong Kong Dollars, and they are listed on the main board of the Hong Kong Stock Exchange
“Hong Kong Stock Exchange”	The Stock Exchange of Hong Kong Limited
“HK\$” or “HK Dollar”	Hong Kong dollar, the lawful currency of Hong Kong
“Hunan SASAC”	湖南省國有資產監督管理委員會 (Hunan State-owned Assets Supervision and Administration Commission), the State-owned Assets Supervision and Administration Commission of the Hunan Province
“InvestCo”	濰柴動力(濰坊)投資有限公司 (Weichai Power (Weifang) Investment Co., Ltd.), a limited liability company established in the PRC on 2 August 2005 and a wholly owned subsidiary of the Company
“Listing Rules” or “Rule(s)”	the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited
“Merger Agreement”	the agreement that may be entered into between the Company and TAGC in relation to the Merger Proposal
“Merger Proposal”	the proposed merger of the Company and TAGC and the issue by the Company of new Weichai A Shares to the shareholders of TAGC (other than InvestCo) at the Exchange Ratio and the other ancillary matters set out in this announcement
“MOC”	中國商務部 (Ministry of Commerce), the Ministry of Commerce of the PRC
“PRC” or “China” or “State”	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
“PRC Announcement”	the announcement issued by TAGC in relation to the Merger Proposal on 1 September, 2006 in the PRC
“RMB”	Renminbi, the lawful currency of the PRC
“SFGC”	陝西法士特齒輪有限責任公司 (Shaanxi Fast Gear Co., Ltd.), a company established in the PRC and is a 51% subsidiary of TAGC. Insofar as the Company is aware, the holder of the 49% equity interest of this company is a third party independent of the Company
“Shaanxi Zhongqi”	陝西重型汽車有限公司 (Shaanxi Heavy Duty Motor Company Limited), a company established in the PRC and is a 51% subsidiary of TAGC. Insofar as the Company is aware, the holder of the 49% equity interest of this company is a third party independent of the Company



“Shandong SASAC”	山東省國有資產監督管理委員會 (Shandong State-owned Assets Supervision and Administration Commission), the State-owned Assets Supervision and Administration Commission of the Shandong Province
“TAGC”	湘火炬汽車集團股份有限公司 (Torch Automobile Group Co., Ltd.), a company established in the PRC and the shares of which are listed on the Shenzhen Stock Exchange
“TAGC Board”	The board of directors of TAGC
“TAGC Consultation Period”	has the meaning ascribed to it in the section headed “IV. The Exchange Ratio” in this announcement
“TAGC Discussions”	has the meaning ascribed to it in the section headed “IV. The Exchange Ratio” in this announcement
“TAGC Group”	TAGC and its subsidiaries
“TAGC Public Shareholders”	the TAGC Shareholders other than InvestCo and Zhuzhou State Assets Co
“TAGC Share(s)”	share(s) in the capital of TAGC
“TAGC Shareholders”	holders of TAGC Shares
“TSPC”	株州湘火炬火花塞有限責任公司 (Torch Spark Plug Co., Ltd.), a company established in the PRC and is a 97.5% subsidiary of TAGC. Insofar as the Company is aware, the holder of the 2.5% equity interest of this company is a third party independent of the Company
“Weichai A Share(s)”	ordinary shares with a RMB denominated par value of RMB1.00 each, which will be traded in RMB and listed on the Shenzhen Stock Exchange, and which will be issued by the Company pursuant to the Merger Proposal
“Weichai Factory”	濰坊柴油機廠 (Weifang Diesel Engine Works), a legal person established in the PRC and is a substantial shareholder and a promoter of the Company
“Weichai Group”	the Company and its subsidiaries
“Weifang Investment”	濰坊市投資公司 (Weifang Investment Company), a holder of Domestic Shares and a State-owned enterprise
“Zhuzhou State Assets Co”	株州市國有資產投資經營有限公司 (Zhuzhou State-owned Assets Administration Management Company Limited), a State-owned enterprise. It is a third party independent of the Company

“Zhuzhou State Assets Co Gift Rate” has the meaning ascribed to it in the section headed “II. The Merger Proposal” in this announcement

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

Hong Kong 1 September 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. Liu Huisheng, 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**.*