

If you are in any doubt as to any aspect of this circular, you should consult your stockbroker or other registered dealer in securities, bank manager, solicitor, professional accountant or other professional adviser.

If you have sold or transferred all your overseas listed foreign shares (“H Shares”) in Weichai Power Co., Ltd., you should at once hand this circular to the purchaser or transferee or to the bank, stockbroker or other agent through whom the sale or transfer was effected for transmission to the purchaser or transferee.

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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)

**DISCLOSEABLE TRANSACTIONS
DISCLOSEABLE AND CONNECTED TRANSACTIONS
DISPOSAL OF EQUITY INTERESTS IN MAT COMPANIES
AND DALIAN HONGYUAN**

Independent financial adviser to the independent board committee and the independent shareholders of Weichai Power Co., Ltd. on the Discloseable and Connected Transactions



昱豐融資有限公司

CERES CAPITAL LIMITED

CERES

A letter from the Board is set out on pages 6 to 18 of this circular.

A letter from the independent financial adviser to the independent board committee and the independent shareholders of the Weichai Power Co., Ltd. (as defined in this circular) on the Discloseable and Connected Transactions (as defined in this circular) is set out on pages 19 to 31 of this circular.

A notice convening the EGM (as defined in this circular) of Weichai Power Co., Ltd. (the “**Company**”), at which the resolution for approving the MAT Companies Share Transfer Agreements (as defined in this circular) will be considered is set out in this circular.

If you intend to attend the EGM, please complete and return the reply slip in accordance with the instructions printed thereon as soon as possible and in any event by no later than 2 August 2007.

Whether or not you are able to attend the EGM, you are requested to complete the proxy form in accordance with the instructions printed thereon and return it to Computershare Hong Kong Investor Services Limited, the H Share registrar of the Company in Hong Kong, at Shops 1712–16, 17th Floor, Hopewell Centre, 183 Queen’s Road East, Hong Kong not less than 24 hours before the time appointed for the holding of the EGM. Completion and return of the proxy form will not preclude you from attending and voting in person at the EGM or any adjournment thereof should you so wish.

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DEFINITIONS

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

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| “Board” | the board of Directors |
| “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 |
| “Dalian Hongyuan” | 大连鸿源机械制造有限公司 (Dalian Hongyuan Machinery Manufacturing Co., Ltd.), a company established in the PRC |
| “Dalian Hongyuan Share Transfer Agreements” | comprise the Original Dalian Hongyuan Share Transfer Agreement and the Supplemental Original Dalian Hongyuan Share Transfer Agreement |
| “Directors” | directors of the Company |
| “Discloseable and Connected Transactions” | the disposals of the equity interests in the MAT Companies by the Company pursuant to the respective MAT Companies Share Transfer Agreements |
| “Discloseable Transactions” | the disposals of the equity interests in the MAT Companies pursuant to the respective MAT Companies Share Transfer Agreements and the disposal of the equity interest in Dalian Hongyuan by the Company pursuant to the Dalian Hongyuan Share Transfer Agreements |
| “Disposals” | the disposals of the equity interests in the MAT Companies pursuant to the respective MAT Companies Share Transfer Agreements and the disposal of the equity interest in Dalian Hongyuan by the Company pursuant to the Dalian Hongyuan Share Transfer Agreements; and “Disposal” shall mean any of them |
| “EGM” | the extraordinary general meeting of the holders of the Shares of the Company to be held on 22 August 2007 |
| “Group” | the Company and its subsidiaries |
| “Hangzhou Hongyuan Machinery” | 杭州鸿源机械制造有限公司 (Hangzhou Hongyuan Machinery Manufacturing Co., Ltd.), a company established in the PRC |
| “Hangzhou Hongyuan Machinery Share Transfer Agreements” | comprise the Original Hangzhou Hongyuan Machinery Share Transfer Agreement and the Supplemental Hangzhou Hongyuan Machinery Share Transfer Agreement |

DEFINITIONS

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| “Hangzhou Hongyuan Sports” | 杭州鴻源體育用品有限公司 (Hangzhou Hongyuan Sports Products Co., Ltd.), a company established in the PRC |
| “Hangzhou Hongyuan Sports Share Transfer Agreements” | comprise the Original Hangzhou Hongyuan Sports Share Transfer Agreement and the Supplemental Hangzhou Hongyuan Sports Share Transfer Agreement |
| “Honbase” | Honbase Industries Limited, a company incorporated in Hong Kong |
| “Hong Kong” | the Hong Kong Special Administrative Region of the People’s Republic of China |
| “Hong Kong Hongyuan” | a branch of or an entity controlled by Honbase, traded in the name of “鴻源貿易有限公司” or “香港鴻源貿易有限公司” |
| “Independent Board Committee” | a committee of the Board comprising Mr. Zhang Xiao Yu, Mr. Koo Fook Sun, Louis and Mr. Fang Zhong Chang, being independent non-executive Directors |
| “Independent Financial Adviser” | Ceres Capital Limited, a licensed corporation under the SFO to carry on Type 6 (advising on corporate finance) regulated activity and the independent financial adviser to the Independent Board Committee and the Independent Shareholders in respect of the Discloseable and Connected Transactions |
| “Independent Shareholders” | Shareholders who are not required to abstain from voting at the EGM in relation to the resolutions for approving the Discloseable and Connected Transactions |
| “InvestCo” | 濰柴動力 (濰坊) 投資有限公司 (Weichai Power (Weifang) Investment Co., Ltd.), a company established in the PRC and has ceased to exist |
| “Kunshan Hongyuan” | 昆山鴻源機械製造有限公司 (Kunshan Hongyuan Machinery Manufacturing Co., Ltd.), a company established in the PRC |
| “Kunshan Hongyuan Share Transfer Agreements” | comprise the Original Kunshan Hongyuan Share Transfer Agreement and the Supplemental Kunshan Hongyuan Share Transfer Agreement |
| “Latest Practicable Date” | 28 June 2007, being the latest practicable date for the purpose of ascertaining certain information contained in this circular before its despatch |
| “Listing Rules” | the Rules Governing the Listing of Securities on the Stock Exchange |

DEFINITIONS

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| “MAT Auto” | MAT Automotive, Inc., a company incorporated in the United States of America |
| “MAT Beijing” | 邁艾特 (北京) 國際貿易有限公司 (MAT (Beijing) International Trading Co., Ltd.), a company established in the PRC |
| “MAT Companies” | Qingdao Hongben, Hangzhou Hongyuan Machinery, Hangzhou Hongyuan Sports, Kunshan Hongyuan, Tianjin Hongben, Tianjin Hongning and Tangshan Hongben; and “MAT Company” shall mean any one of them |
| “MAT Companies Share Transfer Agreements” | comprise the Original MAT Companies Share Transfer Agreements and the Supplemental MAT Companies Share Transfer Agreements |
| “Merger” | has the meaning ascribed to it in the section headed “III. Reasons and benefits for the Disposals” in the “Letter from the Board” contained in this circular |
| “Original Dalian Hongyuan Share Transfer Agreement” | the share transfer agreement in respect of the sale of 49% equity interest in Dalian Hongyuan by the Company to MAT Auto referred to in the section headed “II. Dalian Hongyuan Share Transfer Agreements” in this circular |
| “Original Hangzhou Hongyuan Machinery Share Transfer Agreement” | the Original Hangzhou Hongyuan Machinery Share Transfer Agreement referred to in the section headed “I. MAT Companies Share Transfer Agreements — 2. Hanzhou Hongyuan Machinery Share Transfer Agreements” in this circular |
| “Original Hangzhou Hongyuan Sports Share Transfer Agreement” | the Original Hangzhou Hongyuan Sports Share Transfer Agreement referred to in the section headed “I. MAT Companies Share Transfer Agreements — 3. Hanzhou Hongyuan Sports Share Transfer Agreements” in this circular |
| “Original Kunshan Hongyuan Share Transfer Agreement” | the Original Kunshan Hongyuan Share Transfer Agreement referred to in the section headed “I. MAT Companies Share Transfer Agreements — 4. Kunshan Hongyuan Share Transfer Agreements” in this circular |
| “Original MAT Companies Share Transfer Agreements” | the share transfer agreements in respect of the sale of 75% equity interests in the MAT Companies by the Company to MAT Beijing referred to in the section headed “I. MAT Companies Share Transfer Agreements” in this circular |

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| “Original Qingdao Hongben Share Transfer Agreement” | the Original Qingdao Hongben Share Transfer Agreement referred to in the section headed “I. MAT Companies Share Transfer Agreements — 1. Qingdao Hongben Share Transfer Agreements” in this circular |
| “Original Tangshan Hongben Share Transfer Agreement” | the Original Tangshan Hongben Share Transfer Agreement referred to in the section headed “I. MAT Companies Share Transfer Agreements — 7. Tangshan Hongben Share Transfer Agreements” in this circular |
| “Original Tianjin Hongben Share Transfer Agreements” | the Original Tianjin Hongben Share Transfer Agreements referred to in the section headed “I. MAT Companies Share Transfer Agreements — 5. Tianjin Hongben Share Transfer Agreements” in this circular |
| “Original Tianjin Hongning Share Transfer Agreement” | the Original Tianjin Hongning Share Transfer Agreement referred to in the section headed “I. MAT Companies Share Transfer Agreements — 6. Tianjin Hongning Share Transfer Agreements” in this circular |
| “PRC” | the People’s Republic of China |
| “PRC GAAP” | the generally accepted accounting principles of the PRC |
| “Qingdao Hongben” | 青島鴻本機械有限公司 (Qingdao Hongben Machinery Co., Ltd.), a company established in the PRC |
| “Qingdao Hongben Share Transfer Agreements” | comprise the Original Qingdao Hongben Share Transfer Agreement and the Supplemental Qingdao Hongben Share Transfer Agreement |
| “RMB” | Renminbi, the lawful currency of the People’s Republic of China |
| “Share(s)” | the ordinary share(s) in the capital of the Company |
| “Shareholder(s)” | holder(s) of the shares in the Company |
| “Stock Exchange” | The Stock Exchange of Hong Kong Limited |
| “Supervisor” | supervisors of the Company |
| “Supplemental Dalian Hongyuan Share Transfer Agreement” | the agreement supplemental to the Original Dalian Hongyuan Share Transfer Agreement |
| “Supplemental Hangzhou Hongyuan Machinery Share Transfer Agreement” | the agreement supplemental to the Original Hangzhou Hongyuan Machinery Share Transfer Agreement |

DEFINITIONS

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| “Supplemental Hangzhou Hongyuan Sports Share Transfer Agreement” | the agreement supplemental to the Original Hangzhou Hongyuan Sports Share Transfer Agreement |
| “Supplemental Kunshan Hongyuan Share Transfer Agreement” | the agreement supplemental to the Original Kunshan Hongyuan Share Transfer Agreement |
| “Supplemental MAT Companies Share Transfer Agreements” | the supplemental share transfer agreements to the Original MAT Companies Share Transfer Agreements |
| “Supplemental Qingdao Hongben Share Transfer Agreement” | the agreement supplemental to the Original Qingdao Hongben Share Transfer Agreement |
| “Supplemental Tangshan Hongben Share Transfer Agreement” | the agreement supplemental to the Original Tangshan Hongben Share Transfer Agreement |
| “Supplemental Tianjin Hongben Share Transfer Agreements” | the agreement supplemental to the Original Tianjin Hongben Share Transfer Agreement |
| “Supplemental Tianjin Hongning Share Transfer Agreement” | the agreement supplemental to the Original Tianjin Hongning Share Transfer Agreement |
| “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 has ceased to exist |
| “Tangshan Hongben” | 唐山鴻本機械製造有限公司 (Tangshan Hongben Machinery Manufacturing Co., Ltd.), a company established in the PRC |
| “Tangshan Hongben Share Transfer Agreements” | comprise the Original Tangshan Hongben Share Transfer Agreement and the Supplemental Tangshan Hongben Share Transfer Agreement |
| “Tianjin Hongben” | 天津鴻本機械製造有限公司 (Tianjin Hongben Machinery Manufacturing Co., Ltd.), a company established in the PRC |
| “Tianjin Hongben Share Transfer Agreements” | comprise the Original Tianjin Hongben Share Transfer Agreements and the Supplemental Tianjin Hongben Share Transfer Agreements |
| “Tianjin Hongning” | 天津鴻寧機械製造有限公司 (Tianjin Hongning Machinery Manufacturing Co., Ltd.), a company established in the PRC |
| “Tianjin Hongning Share Transfer Agreements” | comprise the Original Tianjin Hongning Share Transfer Agreement and the Supplemental Tianjin Hongning Share Transfer Agreement |
| “%” | per cent. |

If there is any inconsistency between the Chinese name of the entities mentioned in this circular and their English translation, the Chinese version shall prevail.



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)

Executive Directors:

Tan Xuguang (*Chairman*)
Xu Xinyu
Sun Shaojun
Zhang Quan

Non-executive Directors:

Yeung Sai Hong
Chen Xuejian
Yao Yu
Li San Yim
Liu Huisheng
Zhang Fusheng
Julius G. Kiss
Han Xiaoqun
Gu Linsheng
Li Shihao
Liu Zheng

Independent Non-executive Directors:

Zhang Xiaoyu
Koo Fook Sun, Louis
Fang Zhongchang

Supervisors:

Sun Chengping
Wang Yong
Jiang Jianfang

Registered office:

197, Section A
Fu Shou East Street
High Technology Industrial
Development Zone
Weifang City
Shandong Province
The People's Republic of China

Principal place of business in Hong Kong:

Suite 2501–2, 25th Floor
One International Finance Centre
1 Harbour View Street Central
Hong Kong

3 July 2007

To: Holders of H Shares
Holders of A Shares

Dear Sir or Madam,

**DISCLOSEABLE TRANSACTIONS
DISCLOSEABLE AND CONNECTED TRANSACTIONS
DISPOSAL OF EQUITY INTERESTS IN MAT COMPANIES
AND DALIAN HONGYUAN**

Reference is made to the announcement of the Company dated 13 June 2007 which announces that on 14 May 2007, the Company has entered into: (i) seven conditional share transfer agreements with MAT Beijing in respect of the sale of its 75% equity interest in each of the MAT Companies to MAT Beijing; and (ii) a conditional share transfer agreement with MAT Auto in respect of the sale of its 49% equity interest in Dalian Hongyuan to MAT Auto. The Board also announces that on 9 June 2007, the Company has entered into (i) seven supplemental share transfer agreements to each of the abovementioned share transfer agreements with MAT Beijing; and (ii) a supplemental share transfer agreement to the abovementioned share transfer agreement with MAT Auto.

This circular gives you further information in relation to the Discloseable Transactions and the Discloseable and Connected Transactions and contains the advice of the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders in relation to the Discloseable and Connected Transactions.

I. MAT COMPANIES SHARE TRANSFER AGREEMENTS

The details of the Original MAT Companies Share Transfer Agreements are as follows:

Date

14 May 2007

Parties

- (1) MAT Beijing, the principal business of which is the import and export of goods and technologies and import and export agencies; and
- (2) the Company, the principal business of which is the research and development, manufacture and sale of high speed heavy duty diesel engines and engine parts; and, through its subsidiaries, the manufacture and sale of heavy-duty trucks and motor vehicle parts and accessories for heavy-duty trucks.

MAT Beijing is indirectly wholly-owned by Wang Wei, who is a director of each of Hangzhou Hongyuan Machinery, Hangzhou Hongyuan Sports, Kunshan Hongyuan and Tianjin Hongben, and was a director of Tianjin Hongning, Tangshan Hongben and Qingdao Hongben during the preceding 12 months. The Company holds a 75% equity interest and Wang Wei, through Honbase (being wholly-owned by Wang Wei) and Hong Kong Hongyuan (being a branch of or an entity controlled by Honbase), holds a 25% equity interest in each of the MAT Companies. Accordingly, Wang Wei and Honbase are connected persons of the Company. MAT Beijing, being an associate of Wang Wei and Honbase, is also a connected person of the Company.

As at the date of this circular, Weichai Factory holds approximately 19.70% of the issued share capital of the Company. Weichai Factory is engaged in the manufacture and sale of 6160A series, 170Z series and R and 95 series diesel engines, none of them being high-speed heavy-duty diesel engines.

Conditions precedent

The effectiveness of each of the Original MAT Companies Share Transfer Agreements was conditional upon the approval by the Board, which was obtained on 9 June 2007. Therefore, prior to 9 June 2007, the Original MAT Companies Share Transfer Agreements had not become effective. On 9 June 2007, the Supplemental MAT Companies Share Transfer Agreements were entered into, and completion of the MAT Companies Share Transfer Agreements is conditional upon the satisfaction of the following conditions:

- (1) the approval of the Disposals of the equity interests in the MAT Companies by the Shareholders; and
- (2) the requisite consents and approvals having been obtained from the relevant governmental and/or regulatory authorities in the PRC.

1. *Qingdao Hongben Share Transfer Agreements*

Assets disposed of

The subject matter of the Disposal under the Qingdao Hongben Share Transfer Agreements is a 75% equity interest in Qingdao Hongben. The said 75% equity interest in Qingdao Hongben is held by the Company and the remaining 25% equity interest in Qingdao Hongben is registered in the name of Honbase. Qingdao Hongben will cease to be a subsidiary of the Company following the Disposal.

Consideration

The aggregate consideration is RMB8,790,000. The consideration was determined after arm's length negotiation between the parties and by reference to the audited net asset value of Qingdao Hongben as at 31 March 2007 prepared in accordance with the PRC GAAP and the fact that Qingdao Hongben's principal business is non-core to the Group's businesses. The consideration will be paid in cash by MAT Beijing to an account designated by the Company as follows: 50% of the said consideration to be paid within two months from the date of the Original Qingdao Hongben Share Transfer Agreement and the remaining 50% of the said consideration to be paid within six months from the same date. According to the Supplemental Qingdao Hongben Share Transfer Agreement, the Company undertakes and warrants to MAT Beijing that, in the event that the Original Qingdao Hongben Share Transfer Agreement shall not become effective and unconditional, it shall return all payments received from MAT Beijing with interests (at the rate of the benchmark rate of bank loans) in one time within three business days.

Information on Qingdao Hongben

The principal business of Qingdao Hongben is the production of machinery tools and metallic accessories.

Based on the latest audited financial statements of Qingdao Hongben, the net asset value of Qingdao Hongben as at 31 December 2006 prepared in accordance with the PRC GAAP was approximately RMB19,734,400.

Based on the latest audited financial statements of Qingdao Hongben, the net profit before and after tax and extraordinary items of Qingdao Hongben for the financial year ended 31 December 2006 prepared in accordance with the PRC GAAP was approximately RMB764,400 and approximately 664,500, respectively. Based on the audited financial statements of Qingdao Hongben, the net profit before and after tax and extraordinary items of Qingdao Hongben for the financial year ended 31 December 2005 prepared in accordance with the PRC GAAP was approximately RMB2,735,900 and approximately RMB2,407,600, respectively.

2. *Hangzhou Hongyuan Machinery Share Transfer Agreements*

Assets disposed of

The subject matter of the Disposal under the Hangzhou Hongyuan Machinery Share Transfer Agreements is a 75% equity interest in Hangzhou Hongyuan Machinery. The said 75% equity interest in Hangzhou Hongyuan Machinery is held by the Company and the remaining 25% equity interest in Hangzhou Hongyuan Machinery is registered in the name of Hong Kong Hongyuan. Hangzhou Hongyuan Machinery will cease to be a subsidiary of the Company following the Disposal.

Consideration

The aggregate consideration is RMB3,220,000. The consideration was determined after arm's length negotiation between the parties and by reference to the audited net asset value of Hangzhou Hongyuan Machinery as at 31 March 2007 prepared in accordance with the PRC GAAP, the fact that Hangzhou Hongyuan Machinery is loss making in 2006 and its principal business being non-core to the Group's businesses. The consideration will be paid in cash by MAT Beijing to an account designated by the Company as follows: 50% of the said consideration to be paid within two months from the date of the Original Hangzhou Hongyuan Machinery Share Transfer Agreement and the remaining 50% of the said consideration to be paid within six months from the same date. According to the Supplemental Hangzhou Hongyuan Machinery Share Transfer Agreement, the Company undertakes and warrants to MAT Beijing that, in the event that the Original Hangzhou Hongyuan Machinery Share Transfer Agreement shall not become effective and unconditional, it shall return all payments received from MAT Beijing with interests (at the rate of the benchmark rate of bank loans) in one time within three business days.

Information on Hangzhou Hongyuan Machinery

The principal business of Hangzhou Hongyuan Machinery is the production of metallic tools and machinery facilities.

Based on the latest audited financial statements of Hangzhou Hongyuan Machinery, the net asset value of Hangzhou Hongyuan Machinery as at 31 December 2006 prepared in accordance with the PRC GAAP was approximately RMB9,891,400.

Based on the latest audited financial statements of Hangzhou Hongyuan Machinery, the net loss before and after tax and extraordinary items of Hangzhou Hongyuan Machinery for the financial year ended 31 December 2006 prepared in accordance with the PRC GAAP was approximately RMB1,282,100 and approximately 1,651,000, respectively. Based on the audited financial statements of Hangzhou Hongyuan Machinery, the net profit before and after tax and extraordinary items of Hangzhou Hongyuan Machinery for the financial year ended 31 December 2005 prepared in accordance with the PRC GAAP was approximately RMB299,700 and approximately RMB485,200, respectively.

3. *Hangzhou Hongyuan Sports Share Transfer Agreements*

Assets disposed of

The subject matter of the Disposal under the Hangzhou Hongyuan Sports Share Transfer Agreements is a 75% equity interest in Hangzhou Hongyuan Sports. The said 75% equity interest in Hangzhou Hongyuan Sports is held by the Company and the remaining 25% equity interest in Hangzhou Hongyuan Sports is registered in the name of Hong Kong Hongyuan. Hangzhou Hongyuan Sports will cease to be a subsidiary of the Company following the Disposal.

Consideration

The aggregate consideration is RMB7,760,000. The consideration was determined after arm's length negotiation between the parties and by reference to the audited net asset value of Hangzhou Hongyuan Sports as at 31 March 2007 prepared in accordance with the PRC GAAP, the fact that Hangzhou Hongyuan Sports is loss making in 2006 and its principal business being non-core to the Group's businesses. The consideration will be paid in cash by MAT Beijing to an account designated by the Company as follows: 50% of the said consideration to be paid within two months from the date of the Original Hangzhou Hongyuan Sports Share Transfer Agreement and the remaining 50% of the said consideration to be paid within six months from the same date. According to the Supplemental Hangzhou Hongyuan Sports Share Transfer Agreement, the Company undertakes and warrants to MAT Beijing that, in the event that the Original Hangzhou Hongyuan Sports Share Transfer Agreement shall not become effective and unconditional, it shall return all payments received from MAT Beijing with interests (at the rate of the benchmark rate of bank loans) in one time within three business days.

Information on Hangzhou Hongyuan Sports

The principal business of Hangzhou Hongyuan Sports is the production and sale of gymnastic equipment and metallic tools.

Based on the latest audited financial statements of Hangzhou Hongyuan Sports, the net asset value of Hangzhou Hongyuan Sports as at 31 December 2006 prepared in accordance with the PRC GAAP was approximately RMB18,535,800.

Based on the latest audited financial statements of Hangzhou Hongyuan Sports, the net loss before and after tax and extraordinary items of Hangzhou Hongyuan Sports for the financial year ended 31 December 2006 prepared in accordance with the PRC GAAP was approximately RMB406,800 and approximately 349,800, respectively. Based on the audited financial statements of Hangzhou Hongyuan Sports, the net profit before and after tax and extraordinary items of Hangzhou Hongyuan Sports for the financial year ended 31 December 2005 prepared in accordance with the PRC GAAP was approximately RMB2,867,100 and approximately RMB2,493,700, respectively.

4. *Kunshan Hongyuan Share Transfer Agreements*

Assets disposed of

The subject matter of the Disposal under the Kunshan Hongyuan Share Transfer Agreements is a 75% equity interest in Kunshan Hongyuan. The said 75% equity interest in Kunshan Hongyuan is held by the Company and the remaining 25% equity interest in Kunshan Hongyuan is registered in the name of Hong Kong Hongyuan. Kunshan Hongyuan will cease to be a subsidiary of the Company following the Disposal.

Consideration

The aggregate consideration is RMB9,730,000. The consideration was determined after arm's length negotiation between the parties and by reference to the audited net asset value of Kunshan Hongyuan as at 31 March 2007 prepared in accordance with the PRC GAAP, the fact that Kunshan Hongyuan is loss making in 2006 and its principal business being non-core to the Group's businesses. The consideration will be paid in cash by MAT Beijing to an account designated by the Company as follows: 50% of the said consideration to be paid within two months from the date of the Original Kunshan Hongyuan Share Transfer Agreement and the remaining 50% of the said consideration to be paid within six months from the same date. According to the Supplemental Kunshan Hongyuan Share Transfer Agreement, the Company undertakes and warrants to MAT Beijing that, in the event that the Original Kunshan Hongyuan Share Transfer Agreement shall not become effective and unconditional, it shall return all payments received from MAT Beijing with interests (at the rate of the benchmark rate of bank loans) in one time within three business days.

Information on Kunshan Hongyuan

The principal business of Kunshan Hongyuan is the production of metallic tools and light machineries.

Based on the latest audited financial statements of Kunshan Hongyuan, the net asset value of Kunshan Hongyuan as at 31 December 2006 prepared in accordance with the PRC GAAP was approximately RMB24,852,600.

Based on the latest audited financial statements of Kunshan Hongyuan, the net loss before and after tax and extraordinary items of Kunshan Hongyuan for the financial year ended 31 December 2006 prepared in accordance with the PRC GAAP was approximately RMB5,105,800 and approximately 5,224,000, respectively. Based on the audited financial statements of Kunshan Hongyuan, the net profit before and after tax and extraordinary items of Kunshan Hongyuan for the financial year ended 31 December 2005 prepared in accordance with the PRC GAAP was approximately RMB11,258,100 and approximately RMB10,096,500, respectively.

5. *Tianjin Hongben Share Transfer Agreements*

Assets disposed of

The subject matter of the Disposal under the Tianjin Hongben Share Transfer Agreements is a 75% equity interest in Tianjin Hongben. The said 75% equity interest in Tianjin Hongben is held by the Company and the remaining 25% equity interest in Tianjin Hongben is registered in the name of Hong Kong Hongyuan. Tianjin Hongben will cease to be a subsidiary of the Company following the Disposal.

Consideration

The aggregate consideration is RMB30,090,000. The consideration was determined after arm's length negotiation between the parties and by reference to the audited net asset value of Tianjin Hongben as at 31 March 2007 prepared in accordance with the PRC GAAP, the fact that Tianjin Hongben is loss making in 2006 and its principal business being non-core to the Group's businesses. The consideration will be paid in cash by MAT Beijing to an account designated by the Company as follows: 50% of the said consideration to be paid within two months from the date of the Original Tianjin Hongben Share Transfer Agreement and the remaining 50% of the said consideration to be paid within six months from the same date. According to the Supplemental Tianjin Hongben Share Transfer Agreement, the Company undertakes and warrants to MAT Beijing that, in the event that the Original Tianjin Hongben Share Transfer Agreement shall not become effective and unconditional, it shall return all payments received from MAT Beijing with interests (at the rate of the benchmark rate of bank loans) in one time within three business days.

Information on Tianjin Hongben

The principal business of Tianjin Hongben is the production and sale of light machineries, vehicle parts and components and metallic strings.

Based on the latest audited financial statements of Tianjin Hongben, the net asset value of Tianjin Hongben as at 31 December 2006 prepared in accordance with the PRC GAAP was approximately RMB79,070,000.

Based on the latest audited financial statements of Tianjin Hongben, the net loss before and after tax and extraordinary items of Tianjin Hongben for the financial year ended 31 December 2006 prepared in accordance with the PRC GAAP was approximately RMB5,454,600 and approximately 4,835,400, respectively. Based on the audited financial statements of Tianjin Hongben, the net profit before and after tax and extraordinary items of Tianjin Hongben for the financial year ended 31 December 2005 prepared in accordance with the PRC GAAP was approximately RMB4,897,400 and approximately RMB5,162,500, respectively.

6. *Tianjin Hongning Share Transfer Agreements*

Assets disposed of

The subject matter of the Disposal under the Tianjin Hongning Share Transfer Agreements is a 75% equity interest in Tianjin Hongning. The said 75% equity interest in Tianjin Hongning is held by the Company and the remaining 25% equity interest in Tianjin Hongning is registered in the name of Hong Kong Hongyuan. Tianjin Hongning will cease to be a subsidiary of the Company following the Disposal.

Consideration

The aggregate consideration is RMB10,430,000. The consideration was determined after arm's length negotiation between the parties and by reference to the audited net asset value of Tianjin Hongning as at 31 March 2007 prepared in accordance with the PRC GAAP and the fact that Tianjin Hongyuan's principal business is non-core to the Group's businesses. The consideration will be paid in cash by MAT Beijing to an account designated by the Company as follows: 50% of the said consideration to be paid within two months from the date of the Original Tianjin Hongning Share Transfer Agreement and the remaining 50% of the said consideration to be paid within six months from the same date. According to the Supplemental Tianjin Hongning Share Transfer Agreement, the Company undertakes and warrants to MAT Beijing that, in the event that the Original Tianjin Hongning Share Transfer Agreement shall not become effective and unconditional, it shall return all payments received from MAT Beijing with interests (at the rate of the benchmark rate of bank loans) in one time within three business days.

Information on Tianjin Hongning

The principal business of Tianjin Hongning is the production and sale of metallic strings, light machineries and metallic fencing.

Based on the latest audited financial statements of Tianjin Hongning, the net asset value of Tianjin Hongning as at 31 December 2006 prepared in accordance with the PRC GAAP was approximately RMB24,601,100.

Based on the latest audited financial statements of Tianjin Hongning, the net profit before and after tax and extraordinary items of Tianjin Hongning for the financial year ended 31 December 2006 prepared in accordance with the PRC GAAP was approximately RMB954,300 and approximately 843,200, respectively. Based on the audited financial statements of Tianjin Hongning, the net profit before and after tax and extraordinary items of Tianjin Hongning for the financial year ended 31 December 2005 prepared in accordance with the PRC GAAP was approximately RMB5,189,700 and approximately RMB4,566,900, respectively.

7. *Tangshan Hongben Share Transfer Agreements*

Assets disposed of

The subject matter of the Disposal under the Tangshan Hongben Share Transfer Agreements is a 75% equity interest in Tangshan Hongben. The said 75% equity interest in Tangshan Hongben is held by the Company and the remaining 25% equity interest in Tangshan Hongben is registered in the name of Hong Kong Hongyuan. Tangshan Hongben will cease to be a subsidiary of the Company following the Disposal.

Consideration

The aggregate consideration is RMB3,210,000. The consideration was determined after arm's length negotiation between the parties and by reference to the audited net asset value of Tangshan Hongben as at 31 March 2007 prepared in accordance with the PRC GAAP and the fact that Tangshan Hongben's principal business is non-core to the Group's businesses. The consideration will be paid in cash by MAT Beijing to an account designated by the Company as follows: 50% of the said consideration to be paid within two months from the date of the Original Tangshan Hongben Share Transfer Agreement and the remaining 50% of the said consideration to be paid within six months from the same date. According to the Supplemental Tangshan Hongben Share Transfer Agreement, the Company undertakes and warrants to MAT Beijing that, in the event that the Original Tangshan Hongben Share Transfer Agreement shall not become effective and unconditional, it shall return all payments received from MAT Beijing with interests (at the rate of the benchmark rate of bank loans) in one time within three business days.

Information on Tangshan Hongben

The principal business of Tangshan Hongben is the production of metallic fencing and metallic tools.

Based on the latest audited financial statements of Tangshan Hongben, the net asset value of Tangshan Hongben as at 31 December 2006 prepared in accordance with the PRC GAAP was approximately RMB7,201,100.

Based on the latest audited financial statements of Tangshan Hongben, the net profit before and after tax and extraordinary items of Tangshan Hongben for the financial year ended 31 December 2006 prepared in accordance with the PRC GAAP was approximately RMB762,600 and approximately 568,200, respectively. Based on the audited financial

statements of Tangshan Hongben, the net profit before and after tax and extraordinary items of Tangshan Hongben for the financial year ended 31 December 2005 prepared in accordance with the PRC GAAP was approximately RMB337,500 and approximately RMB251,400, respectively.

After the completion of the Disposals, the Company will not have any equity interest in the MAT Companies.

II. DALIAN HONGYUAN SHARE TRANSFER AGREEMENTS

The details of the Original Dalian Hongyuan Share Transfer Agreement are as follows:

Date

14 May 2007

Parties

- (1) MAT Auto, the principal business of which is the import and distribution of brakes, friction plates and rotors of vehicles; and
- (2) the Company, the principal business of which is the research and development, manufacture and sale of high speed heavy duty diesel engines and engine parts; and, through its subsidiaries, the manufacture and sale of heavy-duty trucks and motor vehicle parts and accessories for heavy-duty trucks.

Conditions precedent

The effectiveness of the Original Dalian Hongyuan Share Transfer Agreement was conditional upon:

- (1) the approval by the Board (which was obtained on 9 June 2007); and
- (2) the requisite consents and approvals having been obtained from the relevant governmental and/or regulatory authorities in the PRC.

On 9 June 2007, the Supplemental Dalian Hongyuan Share Transfer Agreement was entered into, and completion of the Dalian Hongyuan Share Transfer Agreements is conditional upon the approval of the Disposal of the equity interest in Dalian Hongyuan by the Shareholders (if required by the Stock Exchange).

Assets disposed of

The subject matter of the Disposal under the Dalian Hongyuan Share Transfer Agreements is 49% equity interest in Dalian Hongyuan. The said 49% equity interest in Dalian Hongyuan is beneficially owned and registered in the name of the Company and the remaining 51% equity interest in Dalian Hongyuan is held by MAT Auto. Since MAT Auto is held as to 75% by the Company and as to 25% by Wang Wei, Dalian Hongyuan will be held indirectly by the Company as to 75% following the Disposal.

Consideration

The aggregate consideration is RMB27,960,000. The consideration was determined after arm's length negotiation between the parties and by reference to the audited net asset value of Dalian Hongyuan as at 31 March 2007 prepared in accordance with the PRC GAAP, the fact that Dalian Hongyuan is loss making in 2006 and its principal business being non-core to the Group's businesses. The consideration will be paid in cash by MAT Auto to an account designated by the Company as follows: 50% of the said consideration to be paid within seven days after the approval by the Board and the board of directors of MAT Auto, and the remaining 50% of the said consideration to be paid within seven days after the obtaining of the approvals by the relevant governmental authority in the PRC and the completion of the relevant registration in respect of the Disposal.

Information on Dalian Hongyuan

The principal business of Dalian Hongyuan is the production of metallic tools and vehicle parts and components.

Based on the latest audited financial statements of Dalian Hongyuan, the net asset value of Dalian Hongyuan as at 31 December 2006 prepared in accordance with the PRC GAAP was approximately RMB63,944,800.

Based on the latest audited financial statements of Dalian Hongyuan, the net loss before and after tax and extraordinary items of Dalian Hongyuan for the financial year ended 31 December 2006 prepared in accordance with the PRC GAAP was approximately RMB2,092,600 and approximately RMB2,092,600, respectively. Based on the audited financial statements of Dalian Hongyuan, the net profit before and after tax and extraordinary items of Dalian Hongyuan for the financial year ended 31 December 2005 prepared in accordance with the PRC GAAP was approximately RMB293,600 and approximately RMB293,600, respectively.

III. REASONS AND BENEFITS FOR THE DISPOSALS

The Board is of the view that the Disposals are in line with the Group's policy of disposing of the non-core assets of the Group as and when the appropriate opportunity arises. The equity interests in the MAT Companies and Dalian Hongyuan to be disposed of by the Company pursuant to the Disposals were originally held by TAGC and were only absorbed by the Company, together with other assets and liabilities of TAGC, pursuant to its merger with TAGC (the "**Merger**"), which was completed on 24 April 2007 (as announced by the Company in its circular dated 12 November 2006 and its announcement dated 25 April 2007).

The Board is of the view that the businesses carried on by the MAT Companies were unrelated to the core businesses of the Group. The Disposals of the equity interests in the MAT Companies will result in the MAT Companies ceasing to be the Company's subsidiaries, which will facilitate the Group's concentration on its core businesses. Further, each of Hangzhou Hongyuan Machinery, Hangzhou Hongyuan Sports, Kunshan Hongyuan and Tianjin Hongben recorded a net loss before and after tax and extraordinary items for the year ended 31 December 2006, according to their respective audited financial statements for the same period prepared in accordance with the PRC GAAP. In view of the prospects of the operations of such companies, the Board is of the view that the Disposals would be

beneficial to the Group's future development. Following the Disposal of the equity interest in Dalian Hongyuan, Dalian Hongyuan will be wholly-owned by MAT Auto (being held by the Company as to 75% of its equity interest). The Board is of the view that such Disposal will enhance MAT Auto's position in marketing and obtaining credit facilities for its export business. Accordingly, the Disposals are beneficial to the Group as a whole. The Board is not aware of any disadvantage of the Disposals to the Group.

The Board (including the independent non-executive Directors who have considered the advice of the Independent Financial Adviser in respect of the MAT Companies Share Transfer Agreements) consider the terms of each of the MAT Companies Share Transfer Agreements and the Dalian Hongyuan Share Transfer Agreements have been negotiated and arrived at on arms length basis and that such terms are in the interest of the Company and fair and reasonable so far as the Shareholders are concerned.

IV. EFFECTS OF THE DISPOSALS ON THE EARNINGS, ASSETS AND LIABILITIES OF THE COMPANY

Based on the audited consolidated financial statements of each of the MAT Companies and Dalian Hongyuan for the financial year ended 31 December 2006 prepared in accordance with the PRC GAAP, and after taking into account the amount of the relevant consideration for and the net assets value of the MAT Companies and Dalian Hongyuan as at 31 March 2007 prepared in accordance with the PRC GAAP, it is estimated that the Disposals will result in a net loss of approximately RMB102,095,000 for the Company. The proceeds of the Disposals in the amount of RMB101,190,000 will be used for general working capital purposes of the Group. Since the Company has only come to hold the equity interests in the MAT Companies through the Merger, the Board is of the view that it is impractical to ascertain the acquisition costs of the MAT Companies to the Company and going through the details of the historical records of TAGC, as they form part of the assets and liabilities of TAGC under the Merger.

After the Disposals, the non-current assets of the Group will be decreased by approximately RMB203,285,000 and the current assets of the Group will be increased by approximately RMB101,190,000. The Disposals are not expected to have any material impact on the liabilities of the Group.

V. LISTING RULES IMPLICATIONS

As the aggregate amount of the consideration of the disposals of the MAT Companies and Dalian Hongyuan, together, exceeds 5% (but does not exceed 25%) of one or more of the applicable percentage ratios (as defined in Chapter 14 of the Listing Rules) of the Company, the Disposals constitute Discloseable Transactions for the Company under Chapter 14 of the Listing Rules.

Furthermore, as the disposals of the equity interests in the MAT Companies are between the Company and its connected persons, and the applicable percentage ratios (as defined in Chapter 14 of the Listing Rules) of such disposals are more than 2.5% and the consideration involved shall be more than HK\$10,000,000, in accordance with Chapter 14A of the Listing Rules, they are subject to the reporting, announcement and independent shareholders' approval requirements under the Chapter 14A of the Listing Rules.

LETTER FROM THE BOARD

VI. THE EGM

A notice convening the EGM is set out in this circular. No Shareholder is required to abstain from voting (by way of poll) in respect of the resolution for approval of the MAT Companies Share Transfer Agreements at the EGM. The procedures for demanding a poll are set out in the section headed “8. Procedures for demanding a poll at the EGM” in the appendix to this circular.

If you intend to attend the EGM, please complete and return the reply slip in accordance with the instructions printed thereon as soon as possible and in any event by no later than 2 August 2007.

Whether or not you are able to attend the EGM, you are requested to complete the proxy form in accordance with the instructions printed thereon and return it to Computershare Hong Kong Investor Services Limited, the H Share registrar of the Company in Hong Kong, at Shops 1712-16, 17th Floor, Hopewell Centre, 183 Queen’s Road East, Hong Kong not less than 24 hours before the time appointed for the holding of the EGM. Completion and return of the proxy form will not preclude you from attending and voting in person at the EGM or any adjournment thereof should you so wish.

VII. RECOMMENDATION

Having considered the reasons set out herein, the Directors are of the opinion that the terms of the MAT Companies Share Transfer Agreements are fair and reasonable and in the interests of the Shareholders as a whole. Accordingly, the Directors recommend the Independent Shareholders to vote in favour of the resolutions regarding the MAT Companies Share Transfer Agreements.

The Independent Board Committee comprising the independent non-executive Directors (namely, Mr. Zhang Xiaoyu, Mr. Koo Fook Sun, Louis and Mr. Fang Zhong Chang) has been appointed to consider the MAT Companies Share Transfer Agreements. The Independent Financial Adviser has been appointed to advise the Independent Board Committee and the Independent Shareholders on the fairness and reasonableness of the MAT Companies Share Transfer Agreements. Your attention is drawn to (i) the letter setting out the advice from the Independent Board Committee to the Independent Shareholders, which is set out in this circular, and (ii) the letter of advice from the Independent Financial Adviser setting out its advice to the Independent Board Committee and the Independent Shareholders in relation to the Discloseable and Connected Transactions, which is set out in this circular.

VIII. FURTHER INFORMATION

Your attention is also drawn to the additional information set out in the appendix to this circular.

Yours faithfully,
For and on behalf of the Board of Directors
Tan Xuguang
Chairman and CEO

**LETTER FROM INDEPENDENT BOARD COMMITTEE
ON THE DISCLOSEABLE AND CONNECTED TRANSACTIONS**



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)

3 July 2007

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

Dear Sir or Madam,

DISCLOSEABLE AND CONNECTED TRANSACTIONS

We have been appointed as members of the Independent Board Committee to advise the Independent Shareholders of Weichai Power Co., Ltd. in respect of the Discloseable and Connected Transactions, details of which are set out in the section headed “I. MAT Companies Share Transfer Agreements” in the “Letter from the Board” contained in the Circular. Unless the context otherwise requires, terms defined in the Circular shall have the same meanings when used in this letter.

Your attention is drawn to the “Letter from the Board”, the advice of Independent Financial Adviser in its capacity as the independent financial adviser to the Independent Board Committee and the Independent Shareholders in respect of the Discloseable and Connected Transactions as set out in the “Letter from Independent Financial Adviser on the Discloseable and Connected Transactions” as well as other additional information set out in other parts of the Circular.

Having taken into account the advice of, and the principal factors and reasons considered by the Independent Financial Adviser in relation thereto as stated in its letter, we consider that the Discloseable and Connected Transactions and the terms of the MAT Companies Share Transfer Agreements are fair and reasonable so far as the interests of the Shareholders as a whole are concerned. We therefore recommend that you vote in favour of the ordinary resolution to be proposed at the EGM to approve the MAT Companies Share Transfer Agreements.

Yours faithfully,

The Independent Board Committee

Zhang Xiaoyu

Independent

non-executive Director

Koo Fook Sun, Louis

Independent

non-executive Director

Fang Zhong Chang

Independent

non-executive Director

LETTER FROM INDEPENDENT FINANCIAL ADVISER ON THE DISCLOSEABLE AND CONNECTED TRANSACTIONS

The following is the full text of the letter dated 3 July 2007 from Ceres Capital Limited, the independent financial adviser to the Independent Board Committee and the Independent Shareholders in respect of the Discloseable and Connected Transactions, prepared for the purpose of incorporation in this circular.



昱豐融資有限公司
CERES CAPITAL LIMITED

Suite 3308, Bank of America Tower
12 Harcourt Road
Central
Hong Kong

3 July 2007

*To the independent board committee and
the independent shareholders of Weichai Power Co., Ltd.*

Dear Sirs,

DISCLOSEABLE AND CONNECTED TRANSACTIONS DISPOSAL OF EQUITY INTERESTS IN MAT COMPANIES

INTRODUCTION

We refer to our appointment as the independent financial adviser to the independent board committee (the “Independent Board Committee”) and the independent shareholders (the “Independent Shareholders”) of Weichai Power Co., Ltd. (the “Company”) in respect of the Mat Companies Share Transfer Agreements, details of which are set out in the circular to the Shareholders dated 3 July 2007 (the “Circular”), of which this letter forms part. This letter contains our advice to the Independent Board Committee and the Independent Shareholders in respect of the Mat Companies Share Transfer Agreements. Unless otherwise stated, terms defined in the Circular have the same meanings in this letter.

On 13 June 2007, the Board announced, among other things, that (i) on 14 May 2007 the Company has entered into seven conditional share transfer agreements with MAT Beijing in respect of the sale of its 75% equity interest in each of the MAT Companies, and (ii) on 9 June 2007 the Company has entered into seven supplemental share transfer agreements to each of the abovementioned share transfer agreements with MAT Beijing. As stated in the Circular, MAT Beijing is indirectly wholly-owned by Mr. Wang Wei who is a director of four of the MAT Companies and was a director of the other three MAT Companies during the preceding 12 months. The Company holds 75% equity interest and Mr. Wang Wei, through Honbase (being wholly-owned by Mr. Wang Wei) and Hong Kong Hongyuan (being a branch of or an entity controlled by Honbase), holds 25% equity interest in each of the MAT Companies. Accordingly, Mr. Wang Wei and Honbase are connected persons of the Company and MAT Beijing, being an associate of Mr. Wang Wei and Honbase, is also a connected person of the Company under the Listing Rules. As a result, the transactions contemplated under each of the MAT Companies

LETTER FROM INDEPENDENT FINANCIAL ADVISER ON THE DISCLOSEABLE AND CONNECTED TRANSACTIONS

Share Transfer Agreements constitute connected transactions of the Company under the Listing Rules. Furthermore, as the applicable percentage ratios (as defined in Chapter 14 of the Listing Rules) of the disposals under the MAT Companies Share Transfer Agreements are more than 5% (but less than 25%) and the total consideration thereof shall be more than HK\$10 million, these transactions therefore constitute discloseable and connected transactions under the Listing Rules and are required to be subject to, among others, the approval of the independent shareholders at a general meeting of the Company pursuant to Chapter 14A of the Listing Rules.

The Independent Board Committee, comprising three independent non-executive Directors, has been formed to advise the Independent Shareholders as to whether each of the Discloseable and Connected Transactions is in the interests of the Company and the Shareholders as a whole; and whether the terms of each of the MAT Companies Share Transfer Agreements are fair and reasonable. As the independent financial adviser to the Independent Board Committee and the Independent Shareholders, our role is to give an independent opinion to the Independent Board Committee and the Independent Shareholders as to (i) whether or not the transactions contemplated under each of the MAT Companies Share Transfer Agreements are in the interests of the Company and the Shareholders as a whole; (ii) whether the terms of each of the MAT Companies Share Transfer Agreements are fair and reasonable; and (iii) how the Independent Shareholders should vote on the resolution(s) in respect of the MAT Companies Share Transfer Agreements at the general meeting of the Company to be convened for such purpose.

Apart from the normal advisory fee payable to us in connection with our appointment as the independent financial adviser to the Independent Board Committee and the Independent Shareholders, no arrangement exists whereby we shall receive any other fees or benefits from the Company. We are independent of the Company for the purposes of Rule 13.84 of the Listing Rules.

BASIS OF OUR OPINION

In formulating our opinion, we have relied on the statements, information, opinions and representations contained in the Circular and the information and representations provided to us by the Company, its advisers and the Directors. We have assumed that all information, representations and opinions contained or referred to in the Circular, which have been provided by the Company and the Directors and for which they are solely and wholly responsible, were true and accurate at the time they were made and continue to be so at the date hereof. 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. The Directors have confirmed, 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 or representations the omission of which would make any statement in the Circular, including this letter, misleading. We consider that we have reviewed sufficient information which enables us to form a reasonable basis for our opinion. We also consider that we have performed all reasonable steps as required under Rule 13.80 of the Listing Rules to ascertain the reliability of the information provided to us and to form our opinion. We have not, however, conducted any independent verification of the information provided, nor have we carried out any in-depth investigation into the business, financial results and position and affairs of the Group or the MAT Companies or the prospects of the market in which they operate respectively.

LETTER FROM INDEPENDENT FINANCIAL ADVISER ON THE DISCLOSEABLE AND CONNECTED TRANSACTIONS

PRINCIPAL FACTORS CONSIDERED

In formulating our opinion regarding the MAT Companies Share Transfer Agreements, we have taken into consideration the following principal factors:

1. Overview of the Group's business and operating results and reasons for entering into the MAT Companies Share Transfer Agreements

The Company is one of the leading high-speed, heavy-duty diesel engine manufacturers in the PRC, supplying mainly to major domestic truck and construction machinery manufacturers. The Company's core products are six-cylinder, 110–266kw output, 9.7 litre displacement WD615 diesel engines and WD618 diesel engines with output of 265–323kw. Diesel engine manufacturing is a very large industry with a diverse range of engines, which are characterised by their end-products or applications. As disclosed in the Company's annual report for the year ended 31 December 2006 (the "Annual Report"), the sales of diesel engines which were used in heavy-duty trucks and construction machinery accounted for a total of approximately 88.6% of the Group's total turnover for the year 2006. During 2006, the Group sold approximately 145,890 units of diesel engines, of which approximately 80,480 units were truck engines and approximately 59,210 units were construction machine engines. Apart from the production and sale of diesel engines, the Group is also engaged in the production and sale of engine parts. For the year 2006, sales of diesel engine parts amounted to approximately RMB758 million and accounted for approximately 11.4% of the Group's total turnover for the year.

For the year ended 31 December 2006, the Group recorded an audited turnover of approximately RMB6,634 million, representing an increase of approximately 26.3% over the turnover of approximately RMB5,251 million for the preceding year. As noted in the Annual report, such increase was mainly due to a rebound in the demand from the heavy-duty truck and construction machinery industries and the Group recorded a 27.8% increase in the unit of diesel engines sold during the year. Coupled with the enhanced internal management which resulted in increased operation quality and lowered costs, the Group achieved significant improvement in its gross profit margin to 28.5% for 2006 from 22.0% for 2005. The Group's gross profit for 2006 reached RMB1,891 million as compared to approximately RMB1,154 million for 2005, representing an increase of approximately 63.8%. Profit attributable to the Shareholders for 2006 approached RMB703 million, representing more than 120% increase from RMB315 million for 2005.

On 12 November 2006, the Company entered into an agreement with TAGC in respect of the merger of the Company and TAGC. The merger proposal was completed on 24 April 2007 and following which, the Company absorbed all the assets and liabilities of TAGC including the equity interests in the MAT Companies. As stated in the circular of the Company dated 12 November 2006, both the Company and TAGC's main products are part of the heavy-duty truck market and TAGC together with its subsidiaries are also the market leader in the markets in which the Group and TAGC compete including transmissions, axles and spark plugs for the heavy-duty truck market. Due to the complementary nature of these businesses, the Directors believe that after the merge with TAGC, the enlarged Group will become a dominant player in the heavy-duty truck market.

LETTER FROM INDEPENDENT FINANCIAL ADVISER ON THE DISCLOSEABLE AND CONNECTED TRANSACTIONS

Apparently, the primary objective of the Company to merge with TAGC is to strengthen its market leader position in the heavy-duty truck market in the PRC. The favourable operating results of the Company in recent year also seem to have vindicated the Company's strategy to focus on the heavy-duty truck and construction machinery industries. However, TAGC also held various equity interests in subsidiaries and associates which are engaged in businesses not so related to the heavy-duty truck market. The equity interests in the MAT Companies to be disposed of by the Company under the MAT Company Share Transfer Agreements were originally held by TAGC and were only absorbed by the Company together with other assets and liabilities of TAGC. As the principal businesses of the MAT Companies are not complementary or in line with those of the Company (details of which are discussed in the section headed "Information on the MAT Companies" below), we consider that the disposal of all its equity interests in the MAT Companies is consistent with the Company's policy to dispose of its non-core assets. We are also of the opinion that it is strategically sensible for the Company to dispose of the non-core assets as such disposals will facilitate effective use of the resources on the Group's principal business activities.

2. Principal terms of the Original MAT Companies Share Transfer Agreements

The Company has entered into seven conditional share transfer agreements with MAT Beijing in respect of the sale of its 75% equity interests in each of the MAT Companies. The terms and conditions of the Original MAT Companies Share Transfer Agreements are substantially the same except for the following salient terms:

(a) *Original Qingdao Hongben Share Transfer Agreement*

Asset to be disposed of: 75% equity interest in Qingdao Hongben

Consideration: RMB8,790,000

(b) *Original Hangzhou Hongyuan Machinery Share Transfer Agreement*

Asset to be disposed of: 75% equity interest in Hangzhou Hongyuan Machinery

Consideration: RMB3,220,000

(c) *Original Hangzhou Hongyuan Sports Share Transfer Agreement*

Asset to be disposed of: 75% equity interest in Hangzhou Hongyuan Sports

Consideration: RMB7,760,000

LETTER FROM INDEPENDENT FINANCIAL ADVISER ON THE DISCLOSEABLE AND CONNECTED TRANSACTIONS

(d) *Original Kunshan Hongyuan Share Transfer Agreement*

Asset to be disposed of: 75% equity interest in Kunshan Hongyuan

Consideration: RMB9,730,000

(e) *Original Tianjin Hongben Share Transfer Agreement*

Asset to be disposed of: 75% equity interest in Tianjin Hongben

Consideration: RMB30,090,000

(f) *Original Tianjin Hongning Share Transfer Agreement*

Asset to be disposed of: 75% equity interest in Tianjin Hongning

Consideration: RMB10,430,000

(g) *Original Tangshan Hongben Share Transfer Agreement*

Asset to be disposed of: 75% equity interest in Tangshan Hongben

Consideration: RMB3,210,000

The consideration under each of the Original MAT Companies Share Transfer Agreements is payable in cash as to 50% within two months from the date of the respective agreement and as to the balance of 50% within six months from the same date.

As stated in the Circular, the consideration under each of the Original MAT Companies Share Transfer Agreements was determined after arm's length negotiation between the parties and by reference to the audited net asset value of each of the MAT Companies as at 31 March 2007 prepared in accordance with the PRC GAAP and the fact that the principal businesses of the MAT Companies are non-core to that of the Group and four of the MAT Companies were loss-making in 2006.

In order to assess the fairness and reasonableness of the consideration under each of the Original MAT Companies Share Transfer Agreements, we have sought to compare it with the market statistics of companies listed on the Stock Exchange for their latest financial year which are principally engaged in a similar line of business as those of the MAT Companies. As indicated in the section headed "Information on the MAT Companies" below, the MAT Companies are principally engaged in the manufacture and sale of various machinery tools and facilities, metal parts and components, etc. As advised by the Company, these products of the MAT Companies are primarily for exports to North America for use in the automobile industry. To the best of our knowledge, we have identified four companies which are primarily engaged in the

LETTER FROM INDEPENDENT FINANCIAL ADVISER ON THE DISCLOSEABLE AND CONNECTED TRANSACTIONS

manufacture and sale of automobile parts and components (“Comparable Companies”) and whose shares are listed on the Stock Exchange. Details of our findings on the Comparable Companies are summarised in the table below.

| Name (stock code) | Price/ earnings multiple as at the Latest Practicable Date (notes 1 & 2) | Price to book ratio (notes 1 & 3) | Annual turnover (RMB'000) (note 2) | Annual profit/(loss) attributable to shareholders (RMB'000) (note 2) |
|---|---|--|---|---|
| New Focus Auto Tech Holdings Limited (360) | 62.61 | 4.06 | 533,302 | 14,218 |
| Norstar Founders Group Limited (2339) | 10.58 | 1.97 | 2,658,993 | 347,313 |
| Zhejiang Shibao Company Limited (8331) | 8.77 | 0.90 | 152,369 | 32,595 |
| Zhongda International Holdings Limited (909) | 80.61 | 7.92 | 190,736 | 15,317 |
| <i>Average of the Comparable Companies</i> | <i>40.64</i> | <i>3.71</i> | <i>883,850</i> | <i>102,361</i> |

| MAT Companies | Price/ earnings multiple (notes 4 & 5) | Price to book ratio (note 4 & 6) | Annual turnover (RMB'000) (note 5) | Annual profit/(loss) attributable to shareholders (RM'000) (note 5) | (Loss) for the 3 months ended 31 March 2007 (RMB'000) (note 6) |
|--|---|---|---|--|---|
| Qingdao Hongben | 17.64 | 0.60 | 24,809 | 665 | (208) |
| Hangzhou Hongyuan Machinery | N/A | 0.60 | 49,025 | (1,651) | (2,743) |
| Hangzhou Hongyuan Sports | N/A | 0.60 | 20,192 | (350) | (1,283) |
| Kunshan Hongyuan | N/A | 0.60 | 157,706 | (5,224) | (3,236) |
| Tianjin Hongben | N/A | 0.60 | 350,214 | (4,835) | (12,191) |
| Tianjin Hongning | 16.49 | 0.60 | 23,366 | 843 | (1,427) |
| Tangshan Hongben | 7.53 | 0.60 | 6,543 | 568 | (62) |
| <i>Average of the MAT Companies</i> | <i>13.89</i> | <i>0.60</i> | <i>90,265</i> | <i>Profit: 692 Loss: (3,015)</i> | |

Notes:

- Based on the closing price per share of the respective Comparable Companies as at the Latest Practicable Date.
- Based on the audited financial information of the Comparable Companies as indicated in their latest published annual reports.

LETTER FROM INDEPENDENT FINANCIAL ADVISER ON THE DISCLOSEABLE AND CONNECTED TRANSACTIONS

3. Being the multiple represented by the closing price per share as at the Latest Practicable Date over the audited net asset value of the respective Comparable Companies as indicated in their latest published annual reports.
4. Based on the consideration under the respective MAT Companies Share Transfer Agreements.
5. Based on the audited income statements of the respective MAT Companies for the year ended 31 December 2006.
6. Based on the audited financial statements of the respective MAT Companies for the three months ended 31 March 2007.

As indicated in the table above, the Comparable Companies were traded at the price/earnings multiples ranging from 8.77 times to 80.61 times as at the Latest Practicable Date, with an average of about 40.64 times. The price to book ratios of the Comparable Companies as at the Latest Practicable Date were between 0.90 and 7.92, with an average of 3.71.

Based on the consideration under each of the Original MAT Companies Share Transfer Agreements and their respective audited accounts for the year ended 31 December 2006, the price/earnings multiples for three of the MAT Companies ranged from 7.53 to 17.64, while the other four MAT Companies reported losses. Based on the consideration under each of the Original MAT Companies Share Transfer Agreements and their respective audited net asset value as at 31 March 2007, the price to book ratios of the MAT Companies were all about 0.60 which represents that the MAT Companies are being disposed of at about 40% discount to their respective net asset value.

Apparently, the consideration under each of the Original MAT Companies Share Transfer Agreements is low in terms of price/earnings multiple and price to book ratio by comparison with the Comparable Companies. However, it should also be noted that the Comparable Companies are all listed on the Stock Exchange with their shares freely tradable in the open market and their scale of operations is more established and substantial than those of the MAT Companies. As indicated in the table above, the annual turnover of the Comparable Companies for the year ended 31 December 2006 ranged from RMB152 million to RMB2,659 million, with profit attributable to shareholders reaching RMB14 million to RMB347 million. The average annual turnover and profit attributable to shareholders of the Comparable Companies for the year ended 31 December 2006 was approximately RMB884 million and RMB102 million, respectively. On the contrary, the scale of operations of the MAT Companies is smaller than that of the Comparable Companies. The average turnover of each of the MAT Companies for the year ended 31 December 2006 was only about RMB90 million, and four of them were loss-making. The other three MAT Companies reported a meagre profit attributable to shareholders of approximately RMB692,000 on average. As indicated in the audited financial statements of the MAT Companies for the three months ended 31 March 2007, all seven of them reported losses for the period.

On the basis that (i) the equity interests to be disposed of under each of the Original MAT Companies Share Transfer Agreements are not freely tradable securities; (ii) the scale of operations of the MAT Companies is relatively small compared with that of the Comparable Companies; (iii) most of the MAT Companies were loss-making in their latest financial year and their operating results appear to be deteriorating as indicated in their audited accounts for the first quarter of 2007; and (iv) the principal business activities of the MAT Companies are not in line

LETTER FROM INDEPENDENT FINANCIAL ADVISER ON THE DISCLOSEABLE AND CONNECTED TRANSACTIONS

with the Company's principal business or business strategy, we consider that the consideration under each of the MAT Companies Share Transfer Agreements which represents a discount of approximately 40% to the net asset values attributable to 75% equity interests in the MAT Companies to be fair and reasonable, though it appears to be relatively low by comparison with the market price of the Comparable Companies.

Independent Shareholders should also note that if the operating results of the MAT Companies continue to deteriorate, the value of the MAT Companies may deplete accordingly and, in such event, the Company may not be able to realize its interests in MAT Companies in the future at all or at a level comparable to the consideration under the MAT Companies Share Transfer Agreements.

3. Information on the MAT Companies

| Name of MAT Companies | Location | Principal business activities |
|------------------------------|-----------------------------|---|
| Qingdao Hongben | Qingdao, Shandong Province | Manufacture of machinery tools, metal accessories, etc. |
| Hangzhou Hongyuan Machinery | Hangzhou, Zhejiang Province | Manufacture of metal tools, machinery facilities, etc. |
| Hangzhou Hongyuan Sports | Hangzhou, Zhejiang Province | Manufacture and sale gymnastic equipment and metal tools and parts, etc. |
| Kunshan Hongyuan | Kunshan, Jiangsu Province | Manufacture of metal tools, and light machineries, etc. |
| Tianjin Hongben | Tianjin City | Manufacture and sale of light machineries, auto parts and components, and metal strings, etc. |
| Tianjin Hongning | Tianjin City | Manufacture and sale of metal strings, light machineries and metal fencing, etc. |
| Tangshan Hongben | Fengnan, Hebei Province | Manufacture of metal fencing, metal tools, etc. |

As summarized above, the operations of the MAT Companies are dispersed in different cities in different provinces in the PRC. The principal business activities of the MAT Companies are the manufacture and sale of various machinery tools and facilities, metal parts and components, etc. As advised by the Company, these products of the MAT Companies are primarily for exports to North America for use in the automobile industry.

LETTER FROM INDEPENDENT FINANCIAL ADVISER ON THE DISCLOSEABLE AND CONNECTED TRANSACTIONS

As mentioned in the section headed “Overview of the Group’s business and operating results and reasons for entering into the MAT Companies Share Transfer Agreements” above, the Company is one of the leading high-speed, heavy-duty diesel engine manufacturers in the PRC, supplying mainly to major domestic truck and construction machinery manufacturers. It has been the Company’s strategy to focus on the heavy-duty truck and construction machinery industries. The Company has also been keen to enhance its market leader position in the heavy-duty truck market as evidenced by its merge with TAGC which was completed in April 2007. The Company has absorbed the MAT Companies from the merge with TAGC and it is apparent that the principal businesses of the MAT Companies are not in line with that of the Company. The Company is headquartered in Weifang, Shandong Province and its operations are primarily located in Weifang City in Shandong province, Xian City in Shaanxi Province and Zhuzhou City in Hunan Province. The dispersed locations of the operations of the MAT Companies in different provinces in the PRC require significant human resources in order to ensure effective control and management. Furthermore, substantially all of the Group’s products are for sales to domestic manufacturers while most of the products of the MAT Companies are primarily for exports to North America. The Group presently does not have the experience or expertise to manage the export sales of the MAT Companies. Given the relatively small scale of the operations of the MAT Companies compared with those of the Group, we consider that it is not strategically sensible for the Group to invest both the financial and management resources in the MAT Companies. Although the MAT Companies could remain to be managed by their existing employees, it would not be in the interest of the Company, as a 75% equity interest holder, not to engage its own management to actively control and manage the day-to-day operations of the MAT Companies, especially when the MAT Companies’ operating results appear to be deteriorating. Having considered all the above factors and the Company’s strategy to focus on the heavy-duty truck and construction machinery industries, we concur with the Directors’ view that the disposals of the 75% equity interests in each of the MAT Companies are in the interests of the Company and the Shareholders.

4. Condition precedent

Each of the Original MAT Companies Share Transfer Agreements was conditional upon the approval by the Board, which was obtained on 9 June 2007. On 9 June 2007, the Company also entered into seven supplemental agreements to each of the Original MAT Companies Share Transfer Agreements to, among other things, impose additional conditions precedent for completion of the Discloseable and Connected Transactions, details of which are set out in the section below.

5. Supplemental MAT Companies Share Transfer Agreements

On 9 June 2007, the Company entered into seven supplemental agreements with MAT Beijing in respect of each of the Original MAT Companies Share Transfer Agreements. The salient terms of each of the Supplemental MAT Companies Share Transfer Agreements are substantially the same and are set out in the Letter from the Board. The principal purpose of entering into these supplemental agreements are to impose additional conditions precedent to the Discloseable and Connected Transactions so that completion of each of the Original MAT Companies Share Transfer Agreements is subject to the approval of the Shareholders and the requisite consents and approvals having been obtained from the relevant governmental and/or regulatory authorities in

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the PRC. Further, it has been clarified in these supplemental agreements that the obligation of the MAT Beijing to pay the relevant consideration to the Company under each of the Original MAT Companies Share Transfer Agreements shall be effective upon the approval of the Board of such agreements.

We consider that the terms of each of the Supplemental MAT Companies Share Transfer Agreements are fair and reasonable and provides the Company with better protection in respect of the payment obligation of MAT Beijing and are therefore in the interests of the Company and the Shareholders.

As stated in the Letter from the Board, the Company undertakes and warrants to MAT Beijing that, in the event that the MAT Companies Share Transfer Agreements shall not become effective and unconditional, it shall return all payments received from MAT Beijing with interests (at the rate of the benchmark rate of bank loans) in one time within three business days.

6. Financial effects of the MAT Companies Share Transfer Agreements

The MAT Companies are presently owned as to 75% by the Company and their assets, liabilities and operating results are consolidated into those of the Company. Following completion of the disposals under the MAT Companies Share Transfer Agreements, the Company will no longer have any interests in any of the MAT Companies and its financial position will not be affected in any way by that of the MAT Companies.

As advised by the Company, based on the latest audited financial statements of each of the MAT Companies for the three months ended 31 March 2007 prepared in accordance with the PRC GAAP, and after taking into account the amount of the relevant consideration for and the estimated costs of the Discloseable and Connected Transactions, it is estimated that the Discloseable and Connected Transactions will result in a net loss of approximately RMB121.9 million for the Company. Such loss on disposals of the Company's 75% equity interests in the MAT Companies is primarily due to the fact that the consideration under each of the MAT Companies Share Transfer Agreements was determined at a discount of about 40% to the Company's 75% share of net assets of the respective MAT Companies and that TAGC had carried forward a goodwill of approximately RMB64,147,000 as at 31 March 2007 attributable to the MAT Companies. In view of the deteriorating operating performance of the MAT Companies in 2006 and the first quarter of 2007, it would be likely that impairment provision against such goodwill would be required regardless of whether or not the Company disposes of the MAT Companies. If the Company does not dispose of the MAT Companies which remain as subsidiaries of the Company, the Group's results of operations will be affected by those of the MAT Companies upon consolidation of their income statements. Based on the operating results of the MAT Companies for the first quarter of 2007 as indicated in their audited financial statements prepared in accordance with PRC GAAP, the MAT Companies reported losses of over RMB21 million in aggregate which, upon consolidation to the income statements of the Group, will adversely affect the overall performance of the Group. If the operating results of the MAT Companies continue to deteriorate, such negative impact on the overall operating performance of the Group will be continual.

LETTER FROM INDEPENDENT FINANCIAL ADVISER ON THE DISCLOSEABLE AND CONNECTED TRANSACTIONS

Having considered that (i) the 75% equity interests in each of the MAT Companies are non-core assets of the Company; (ii) the principal businesses of the MAT Companies are not in line with the existing business strategy of the Company to focus on the heavy-duty truck and construction machinery markets; and (iii) impairment provision against the goodwill attributable to the MAT Companies may be required in the current or coming year given their deteriorating operating results; (iv) the overall operating performance of the Group may continually be hampered by that of the MAT Companies on consolidation, we are of the opinion that the disposals of the MAT Companies is in the interests of the Company and the Shareholders and therefore the one-off loss to be recorded therefrom is acceptable on a long-term perspective.

As stated in the Circular, the gross proceeds from the Discloseable and Connected Transactions in the amount of RMB73.23 million will be used for general working capital purposes of the Group. On the basis that additional working capital can be generated and utilized for the Group's core business operations, we are of the view that the disposals of the MAT Companies are in the interests of the Company and the Shareholders.

RECOMMENDATION

In formulating our recommendation to the Independent Board Committee and the Independent Shareholders, we have noted that the consideration under each of the MAT Companies Share Transfer Agreements represents a discount of about 40% to the Company's 75% share of the respective net asset value of the MAT Companies as at 31 March 2007 and a one-off loss of approximately RMB121.9 million would be recorded as a result of the disposals of the MAT Companies. However, having considered the other principal factors and reasons discussed above, in particular, the following:

- the 75% equity interests in each of the MAT Companies are non-core assets of the Company;
- the principal business activities of the MAT Companies are not in line with the Company's existing business strategy to focus on the heavy-duty truck and construction machinery markets;
- the Group presently does not have the experience and expertise in managing the export sales of the products of the MAT Companies and it is not strategically sensible for the Group to invest in building up such non-core business;
- the dispersed locations of the operations of the MAT Companies would render management inefficient and ineffective; and
- the operating results of the MAT Companies were not promising and appear to be deteriorating;

we are of the opinion that each of the MAT Companies Share Transfer Agreements is in the interests of the Company and the Shareholders as a whole, and the terms of each of them are fair and reasonable. Accordingly, we would advise the Independent Board Committee and the Independent Shareholders that

**LETTER FROM INDEPENDENT FINANCIAL ADVISER
ON THE DISCLOSEABLE AND CONNECTED TRANSACTIONS**

the Independent Shareholders should vote in favour of the ordinary resolution(s) to approve each of the MAT Companies Share Transfer Agreements at the general meeting of the Company to be convened for such purpose.

Yours faithfully,

For and on behalf of

Ceres Capital Limited

Frank Moy

Managing Director

Jinny Mok

Executive Director

1. RESPONSIBILITY STATEMENT

This circular includes particulars given in compliance with the Listing Rules for the purpose of giving information with regard to the Company. The Directors collectively and individually accept full responsibility for the accuracy of the information contained in this circular and confirm, having made all reasonable enquiries, that to the best of their knowledge and belief, there are no other facts the omission of which would make any statement herein misleading.

2. DISCLOSURE OF INTERESTS

As at the Latest Practicable Date, the interests and short positions of the Directors and Supervisors in the shares, underlying shares and debentures of the Company notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO, or as recorded in the register required to be kept by the Company under section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Companies (as if it were applicable also to the Supervisors of the Company) were as follows:

| Name of Director | Personal interest | Corporate interest | Total | Capacity | Type of interest |
|----------------------------|-----------------------|------------------------|------------|---|------------------|
| Tan Xuguang | 4,300,000 (Note 1) | Nil | 4,300,000 | Beneficial owner | Long |
| Xu Xinyu | 1,000,000 (Note 1) | Nil | 1,000,000 | Beneficial owner | Long |
| Sun Shaojun | 1,000,000 (Note 1) | Nil | 1,000,000 | Beneficial owner | Long |
| Zhang Quan | 1,000,000 (Note 1) | Nil | 1,000,000 | Beneficial owner | Long |
| Yeung Sai Hong (Note 2) | Nil | 23,500,000 (Note 1) | 23,500,000 | Interest of corporation controlled by this person | Long |
| Li San Yim (Note 3) | Nil | 21,500,000 (Note 1) | 21,500,000 | Interest of corporation controlled by this person | Long |
| Julius G. Kiss (Note 4) | Nil | 10,750,000 (Note 1) | 10,750,000 | Interest of corporation controlled by this person | Long |
| Name of Supervisor | | | | | |
| Wang Yong | 350,000 (Note 1) | Nil | 350,000 | Beneficial owner | Long |

Notes:

- These are A Shares of the Company. A Shares are 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 and are listed on The Shenzhen Stock Exchange.
- Yeung Sai Hong, a Director, was directly and indirectly interested in the entire issued share capital of Peterson Holdings Company Limited (培新控股有限公司), which in turn held 23,500,000 Foreign Shares.

3. Li San Yim, a Director, and his wife, Ni Yinying, were interested in 69.16% and 30.84%, respectively in the capital of 福建龍岩工程機械（集團）有限公司 (Fujian Longyan Construction Machinery (Group) Company Limited), which in turn held 21,500,000 Domestic Shares, and Li San Yim was deemed interested in Ni Yinying's entire interest in Fujian Longgong.
4. Julius G. Kiss, a Director, was indirectly interested in the entire capital of IVM Technical Consultants Wien G.m.b.H., which in turn held 10,750,000 Foreign Shares of the Company.

3. SUBSTANTIAL SHAREHOLDERS

As at the Latest Practicable Date, insofar as the Directors were aware, the interests and short positions of any person (other than a Director or Supervisor) in the shares and underlying shares of the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO as recorded in the register required to be kept under section 336 of the SFO were as follows:

| Name | Number of A Shares (Note 7) (being shares of the same class) | Percentage of share capital comprising only A Shares (being shares of the same class) | Number of H Shares (Note 8) | Percentage of share capital comprising only H Shares | | Type of interest held |
|---|--|--|-----------------------------------|--|---|--------------------------|
| | | | | Capacity | | |
| 濰坊柴油機廠 (Weifang Diesel Engine Works) | 77,647,900 | 19.70% | Nil | — | Beneficial owner | Long |
| 山東省國有資產監督 管理委員會 (State-owned Assets Supervision and Administration of Shandong Province) (Note 1) | 77,647,900 | 19.70% | Nil | — | Interest of corporation controlled by this entity | Long |
| Peterson Holdings Company Limited (Note 2) | 23,500,000 | 5.96% | Nil | — | Beneficial owner | Long |
| Advantage Investment Corporation Limited (Note 2) | 23,500,000 | 5.96% | Nil | — | Interest of corporation controlled by this entity | Long |
| 福建龍岩工程機械 （集團）有限公司 (Fujian Longyan Construction Machinery (Group) Company Limited) | 21,500,000 | 5.45% | Nil | — | Beneficial owner | Long |
| 倪銀英 (Ni Yinying) (Note 3) | 21,500,000 | 5.45% | Nil | — | Spouse | Long |
| 濰坊市投資公司 (Weifang Investment Company) (Note 4) | 19,311,550 | 4.90% | Nil | — | Beneficial owner | Long |
| 深圳市創新投資集團 有限公司 (Shenzhen Chuangxin Investment Group Company Limited) (Note 4) | 21,500,000 | 5.45% | Nil | — | Beneficial owner | Long |

| Name | Number of A Shares (Note 7) (being shares of the same class) | Percentage of share capital comprising only A Shares (being shares of the same class) | Number of H Shares (Note 8) | Percentage of share capital comprising only | | Type of interest held |
|--|--|--|-----------------------------------|--|---|--------------------------|
| | | | | H Shares | Capacity | |
| 深圳市投資管理公司 (Shenzhen Investment Management Company) (Note 5) | 21,500,000 | 5.45% | Nil | — | Interest of corporation controlled by this entity | Long |
| IVM Technical Consultants Wien G.m.b.H. | 10,750,000 | 2.73% | Nil | — | Beneficial owner | Long |
| ADTECH Advanced Technologies AG (Note 6) | 10,750,000 | 2.73% | Nil | — | Interest of corporation controlled by this entity | Long |
| Fidelity International Ltd. | Nil | — | 12,774,000 | 10.10% | Investment Manager | Long |
| Baring Asset Management Limited | Nil | — | 8,941,000 | 7.07% | Investment Manager | Long |
| Northern Trust Fiduciary Services (Ireland) Limited | Nil | — | 7,794,000 | 6.16% | Investment Manager | Long |
| UBS AG | Nil | — | 7,579,000 | 5.99% | Investment Manager | Long |
| IXIS Asset Management Asia Ltd | Nil | — | 6,627,000 | 5.24% | Investment Manager | Long |

Notes:

- 山東省國有資產監督管理委員會 (State-owned Assets Supervision and Administration Commission of Shandong Province) held the entire registered capital of Weichai Factory. For details, please refer to the announcement of the Company dated 22 March 2006.
- Yeung Sai Hong, a non-executive Director, was beneficially interested in the entire issued share capital of Advantage Investment Corporation Limited, which was interested in 90% of the entire issued share capital of Peterson Holdings Company Limited.
- The capital of 福建龍岩工程機械(集團)有限公司 (Fujian Longyan Construction Machinery (Group) Company Limited) was held as to approximately 69.16% by Li San Yim (a non-executive Director) and as to approximately 30.84% by 倪銀英 (Ni Yinying). Ni Yinying is Li San Yim's wife, and therefore she is deemed to be interested in Li San Yim's entire interest in Fujian Longgong.
- 濰坊市投資公司 (Weifang Investment Company) is a State-owned enterprise.
- 深圳市投資管理公司 (Shenzhen Investment Management Company) was interested in approximately 33.73% of the capital of 深圳市創新投資集團有限公司 (Shenzhen Chuangxin Investment Group Company Limited).
- ADTECH Advanced Technologies AG was wholly-owned by Julius G. Kiss, a non-executive Director, and it was interested in the entire capital of IVM Technical Consultants Wien G.m.b.H.
- A Shares are 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 and they are currently listed on The Shenzhen Stock Exchange.

8. H Shares are overseas listed Foreign Shares in the share capital of the Company, with a Renminbi-denominated par value of RMB1.00 each and are subscribed for and traded in Hong Kong Dollars, and they are currently listed on the main board of the Stock Exchange.
9. The English translations of the Chinese names in the above table and notes were prepared by the Company for information purpose only and should not be relied upon.

4. ARRANGEMENTS AND MATTERS CONCERNING DIRECTORS

- (a) Each of the executive Directors has entered into a service contract with the Company for a term commencing on 18 December 2005 and ending on 17 December 2008. Terms of the service contracts of each executive Directors are in all material respects the same. None of the Directors has entered into any service contract with the Group, which is not determinable by the Group within one year without payment of compensation (other than the payment of statutory compensation).
- (b) As at the Latest Practicable Date, none of the Directors was interested, directly or indirectly, in any assets which had since 31 December 2006, being the date to which the latest published audited consolidated financial statements of the Group were made up, been acquired or disposed of by or leased to the Company, or were proposed to be acquired or disposed of by or leased to the Company.
- (c) As at the Latest Practicable Date, none of the Directors was materially interested in any contract or arrangement subsisting at the Latest Practicable Date and entered into by the Group since 31 December 2006, being the date to which the latest published audited consolidated financial statements of the Group were made up, and which was significant in relation to the business of the Group.
- (d) As at the Latest Practicable Date, save as disclosed herein, none of the Directors or their respective associates had any interest in a business which competes or may compete with the business of the Company. As at the Latest Practicable Date, the Directors were not aware that any of the Directors or their respective associates had interest in any business, apart from the Group's businesses, which competed or was likely to compete, either directly or indirectly, with the business of the Group which would fall to be disclosed under the Listing Rules.

5. LITIGATION

The Company is not engaged in any litigation or arbitration or claims of material importance and, so far as the Directors are aware, no litigation or arbitration or claims of material importance is pending or threatened against the Company.

6. MATERIAL ADVERSE CHANGE

The Directors are not aware of any material adverse change in the financial or trading position of the Group since 31 December 2006, the date to which the latest audited consolidated financial statements of the Group were made up.

7. EXPERT

- (a) The following is the qualification of the expert which has given opinions or advice which are contained in this circular:

| Name | Qualification |
|-----------------------|--|
| Ceres Capital Limited | A licensed corporation under the SFO to carry on type 6 (advising on corporate finance) regulated activity |

- (b) As at the Latest Practicable Date, the Independent Financial Adviser did not have any shareholding in the Company or any right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in the Company, nor did it have any interest, direct or indirect, in any assets which had, since the date to which the latest published audited consolidated financial statements of the Group were made up, been acquired or disposed of by or leased to the Company, or were proposed to be acquired or disposed of by or leased to the Company.
- (c) The Independent Financial Adviser has given and has not withdrawn its written consent to the issue of this circular with the inclusion herein of its letter and references to its name in the form and context in which they appear.

8. PROCEDURES FOR DEMANDING A POLL AT THE EGM

Under the articles of association of the Company, at any general meeting of Shareholders, a resolution shall be decided on a show of hands unless a poll is demanded by any of the following persons before (or after) any vote by a show of hands:

- (a) the chairman of the meeting;
- (b) at least 2 Shareholders, who have the right to vote, present in person or by proxy;
- (c) one or more Shareholders (including proxies) representing, either calculated separately or in aggregate, one-tenth or more of all shares carrying the right to vote at the meeting.

9. GENERAL

- (a) The secretary and qualified accountant of the Company is Mr. Zhang Yuanfu. Mr. Zhang is an associate member of the Hong Kong Institute of Certified Public Accountants.
- (b) The registered office of the Company is at 197, Section A, Fu Shou East Street, High Technology Industrial Development Zone, Weifang City, Shandong Province, The People's Republic of China.
- (c) The principal place of business of the Company in Hong Kong is at Suite 2501–2, 25th Floor, One International Finance Centre, 1 Harbour View Street, Central, Hong Kong.

- (d) The H share registrar and transfer office of the Company in Hong Kong is Computershare Hong Kong Investor Services Limited at Shops 1712–16, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong.
- (e) In the event of inconsistency, the English text of this circular shall prevail over the Chinese text.

10. DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents will be available for inspection during normal business hours on any weekday (except public holidays) at the principal place of business of the Company in Hong Kong at Suite 2501–2, 25th Floor, One International Finance Centre, 1 Harbour View Street Central, Hong Kong, from 3 July 2007 to 17 July 2007 (both days inclusive):

- (a) the letter from the Independent Financial Adviser as set out in this circular;
- (b) the written consent from the Independent Financial Adviser referred to in paragraph 7 of this appendix;
- (c) the letter from the Independent Board Committee as set out in this circular;
- (d) the service contracts of the Directors referred to in paragraph 4 of this appendix;
- (e) the MAT Companies Share Transfer Agreements;
- (f) the Supplemental MAT Companies Share Transfer Agreements;
- (g) the Dalian Hongyuan Share Transfer Agreement; and
- (h) the Supplemental Dalian Hongyuan Share Transfer Agreement.



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)

NOTICE OF EXTRAORDINARY GENERAL MEETING

NOTICE IS HEREBY GIVEN that the extraordinary general meeting (the “**EGM**”) of Weichai Power Co., Ltd. (the “**Company**”) will be held at the Company’s conference room at 26 Minsheng East Street, Weifang, Shandong Province, the People’s Republic of China (the “**PRC**”) on 22 August 2007 at 10:00 a.m. for the purpose of considering and, if thought fit, approving the matters set out below. Unless the context requires otherwise, terms defined in the circular to the shareholders of the Company dated 3 July 2007 of which this notice forms part (the “**Circular**”) shall have the same meanings when used herein.

It is proposed that the following matters also be considered and, if thought fit, approved at the EGM:

AS ORDINARY RESOLUTION:

1. (a) “**THAT** the Qingdao Hongben Share Transfer Agreements (as defined in the circular (the “**Circular**”) of the Company of which this notice forms part) referred to in the section headed “I. MAT Companies Share Transfer Agreements — 1. Qingdao Hongben Share Transfer Agreements” in the “Letter from the Board” contained in the Circular be and are hereby approved.”;
- (b) “**THAT** the Hangzhou Hongyuan Machinery Share Transfer Agreements (as defined in the circular (the “**Circular**”) of the Company of which this notice forms part) referred to in the section headed “I. MAT Companies Share Transfer Agreements — 2. Hangzhou Hongyuan Machinery Share Transfer Agreements ” in the “Letter from the Board” contained in the Circular be and are hereby approved.”;
- (c) “**THAT** the Hangzhou Hongyuan Sports Share Transfer Agreements (as defined in the circular (the “**Circular**”) of the Company of which this notice forms part) referred to in the section headed “I. MAT Companies Share Transfer Agreements — 3. Hangzhou Hongyuan Sports Share Transfer Agreements” in the “Letter from the Board” contained in the Circular be and are hereby approved.”;

NOTICE OF EGM

- (d) “**THAT** the Kunshan Hongyuan Share Transfer Agreements (as defined in the circular (the “**Circular**”) of the Company of which this notice forms part) referred to in the section headed “I. MAT Companies Share Transfer Agreements — 4. Kunshan Hongyuan Share Transfer Agreements” in the “Letter from the Board” contained in the Circular be and are hereby approved.”;
- (e) “**THAT** the Tianjin Hongben Share Transfer Agreements (as defined in the circular (the “**Circular**”) of the Company of which this notice forms part) referred to in the section headed “I. MAT Companies Share Transfer Agreements — 5. Tianjin Hongben Share Transfer Agreements” in the “Letter from the Board” contained in the Circular are and is hereby approved.”;
- (f) “**THAT** the Tianjin Hongning Share Transfer Agreements (as defined in the circular (the “**Circular**”) of the Company of which this notice forms part) referred to in the section headed “I. MAT Companies Share Transfer Agreements — 6. Tianjin Hongning Share Transfer Agreements” in the “Letter from the Board” contained in the Circular be and are hereby approved.”; and
- (g) “**THAT** the Tangshan Hongben Share Transfer Agreements (as defined in the circular (the “**Circular**”) of the Company of which this notice forms part, referred to in the section headed “I. MAT Companies Share Transfer Agreements — 7. Tangshan Hongben Share Transfer Agreements” in the “Letter from the Board” contained in the Circular be and are hereby approved.”.

By Order of the Board of Directors
Weichai Power Co., Ltd.
Zhang Yuanfu
Company Secretary

Hong Kong, 3 July 2007

Notes:

- (A) The Company will not process registration of transfers of H shares (being overseas listed foreign shares and ordinary shares) in the share capital of the Company with a Renminbi denominated par value of RMB1.00 each, which are subscribed and/or paid for in Hong Kong dollars and listed on The Stock Exchange of Hong Kong Limited (“**H Shares**”) from 23 July 2007 to 22 August 2007 (both days inclusive). Holders of H Shares of the Company whose names appear on the register of H Shares of the Company kept at Computershare Hong Kong Investor Services Limited at the end of 20 July 2007 are entitled to attend and vote at the EGM and for the final dividend (if any) following completion of the registration procedures. To qualify for attendance and voting at the EGM and for the final dividend, documents on transfers of H Shares of the Company,

NOTICE OF EGM

accompanied by the relevant share certificates, must be lodged with the Company's H-Share Registrar and Transfer Office, not later than 4:00 p.m. on 20 July 2007. The address of the Company's H-Share Registrar and Transfer Office is as follows:

Computershare Hong Kong Investor Services Limited
46/F., Hopewell Centre
183 Queen's Road East
Wanchai
Hong Kong

- (B) Holders of H Shares and holders of A shares (being ordinary shares) in the share capital of the Company with a Renminbi denominated par value of RMB1.00 each, which are traded in Renminbi and listed on The Shenzhen Stock Exchange ("**A Shares**") intending to attend the EGM should complete and return the reply slip for attending the EGM personally, by facsimile or by post to the Secretary to the Board of the Company 20 days before the EGM (i.e. on or before 2 August 2007). The contact details of the Secretary to the Board of the Company are as follows:

Securities Department
197, Section A, Fu Shou East Street
High Technology Industrial Development Zone
Weifang
Shandong Province
The People's Republic of China
Postal Code: 261061
Telephone No.: 86 (536) 229 7068
Facsimile No.: 86 (536) 819 7073

- (C) Each holder of H Shares of the Company entitled to attend and vote at the EGM may, by completing the form of proxy of the Company, appoint one or more proxies to attend and vote at the EGM on his behalf. A proxy need not be a shareholder of the Company. With respect to any shareholder who has appointed more than one proxy, the proxy holders may only vote on a poll.
- (D) Holders of H Shares of the Company must use the form of proxy of the Company for appointing a proxy and the appointment must be in writing. The form of proxy must be signed by the relevant shareholder or by a person duly authorised by the relevant shareholder in writing (a "**power of attorney**"). If the forms of proxy is signed by the person authorised by the relevant shareholder as aforesaid, the relevant power of attorney and other relevant documents of authorisation (if any) must be notarised. If a corporate shareholder appoints a person other than its legal representative to attend the EGM on its behalf, the relevant form of proxy must be affixed with the company seal/ chop of the corporate shareholder or duly signed by its director or any other person duly authorised by that corporate shareholder as required by the Articles of Association of the Company.
- (E) To be valid, the form of proxy and the relevant notarised power of attorney (if any) and other relevant documents of authorisation (if any) as mentioned in Note (D) above must be delivered to the Company's H-Share Registrar and Transfer Office, Computershare Hong Kong Investor Services Limited (address: 46/F., Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong), not less than 24 hours before the time appointed for the EGM.

NOTICE OF EGM

- (F) Each holder of A Shares of the Company who is entitled to attend and vote at the EGM may also, by completing the form of proxy of the Company, appoint one or more proxies to attend and vote at the EGM on its behalf. A proxy need not be a shareholder of the Company. Notes (C) and (D) above also apply to the holders of A Shares of the Company, except that, to be valid, the form of proxy and the relevant power of attorney (if any) and other relevant documents of authorisation (if any) must be delivered to the Secretary to the Board of the Company not less than 24 hours before the time appointed for the EGM. The address of the Secretary to the Board of the Company is stated in Note (B) above.
- (G) A shareholder or its proxy should produce proof of identity when attending the EGM. If a corporate shareholder's legal representative or any other person authorised by the board of directors or other governing body of such corporate shareholder attends the EGM, such legal representative or other person shall produce his proof of identity, and proof of designation as legal representative and the valid resolution or authorisation document of the board of directors or other governing body of such corporate shareholder (as the case may be) to prove the identity and authorisation of that legal representative or other person.
- (H) Any proposal to appoint any person to the office of director of the Company at the EGM shall be given in writing and, notice in writing by that person of his consent to be elected as director shall be, lodged at the registered office of the Company at 197, Section A, Fu Shou East Street, High Technology Industrial Development Zone, Weifang, Shandong Province, the People's Republic of China. The period for lodgement of such notices shall commence on (and include) the day after the date of this notice of the EGM and end on (and exclude) the date that is ten (10) days before the date of the EGM.
- (I) The EGM is expected to last for half a day. Shareholders who attend the EGM shall bear their own travelling and accommodation expenses.