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WEICHAI POWER CO., LTD.

Corporate Information

DIRECTORS

Executive Directors

Tan Xuguang (*Chairman*)
Xu Xinyu (*General Manager — Operations*)
Sun Shaojun (*General Manager — Technology*)
Zhang Quan (*General Manager — Marketing*)

Non-executive Directors

Yeung Sai Hong
Chen Xue jian
(appointed on 29th June, 2004)
Yao Yu
Li San Yim
Tong Jingen
Zhang Fusheng
Julius G. Kiss
Feng Gang
Liu Zheng
(resigned on 29th June, 2004)

Independent Non-executive Directors

Koo Fook Sun, Louis
Zhang Xiaoyu
Fang Zhong Chang
(appointed on 15th December, 2004)

SUPERVISORS

Sun Chengping (*Chairman*)
Wang Yong
Jiang Jianfang

COMPANY SECRETARY AND QUALIFIED ACCOUNTANT

Zhang Yuanfu (*FCCA, AHKSA*)

AUTHORISED REPRESENTATIVES

Xu Xinyu
Zhang Yuanfu

REGISTERED ADDRESS AND HEADQUARTER OF THE COMPANY

197, Section A
Fu Shou East Street
High Technology Industrial
Development Zone
Weifang
Shandong Province
The People's Republic of China
Postal Code: 261061
Tel: (86) (536)-229 7068
Fax: (86) (536)-819 7073
website: <http://www.weichai.com>

PLACE OF BUSINESS IN HONG KONG

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

AUDITORS

International auditors:
Messrs. Deloitte Touche Tohmatsu
Certified Public Accountants

PRC auditors:
山東正源和信有限責任會計師事務所
(Shandong Zheng Yuan Hexin Accountants
Limited)

LEGAL ADVISORS

As to Hong Kong law:
Richards Butler

As to PRC law:
中倫金通律師事務所 (Zhong Lun Law Firm)

AUDIT COMMITTEE

Koo Fook Sun, Louis (*Chairman*)
Zhang Xiaoyu
Fang Zhong Chang

Corporate Information

PRINCIPAL BANKERS

Industrial and Commercial Bank of China
Bank of China
HSBC

HONG KONG H-SHARE REGISTRAR AND TRANSFER OFFICE

Computershare Hong Kong
Investor Services Limited
Hopewell Centre
46th Floor
183 Queen's Road East
Wanchai
Hong Kong

SHARE INFORMATION

Place of listing	Main Board of The Stock Exchange of Hong Kong Limited
Listing date	11th March, 2004
Number of issued shares	330,000,000 shares (203,500,000 domestic and foreign shares, and 126,500,000 H shares)
Board lot	1,000 H-shares
Stock code	2338
Abbreviation of the Company's share	潍柴动力 (Weichai Power)
Investors and media relations	<p>The Company: Securities Department</p> <p>Tel: (86) 536-229 7068 Fax: (86) 536-819 7073 Website: www.weichai.com</p> <p>Public Consultant: Hill & Knowlton Asia Ltd</p> <p>Tel: (852) 2894 6321 Fax: (852) 2576 3551 Website: www.hillandknowlton.com.hk</p>
Financial year-end date	31st December



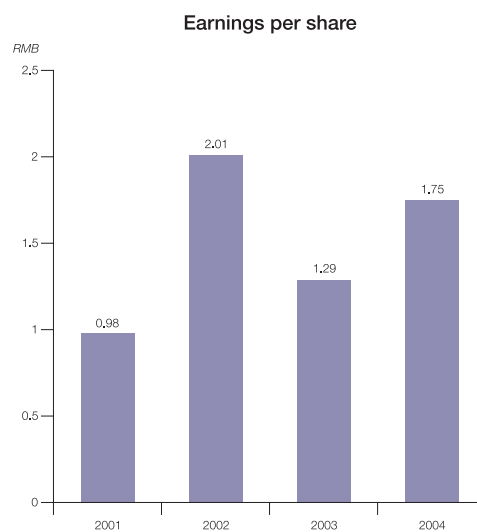
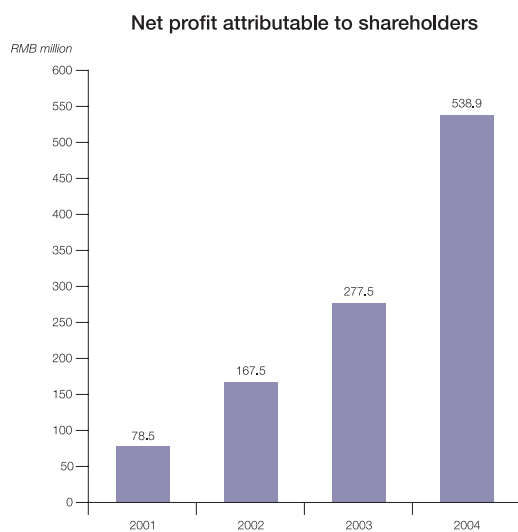
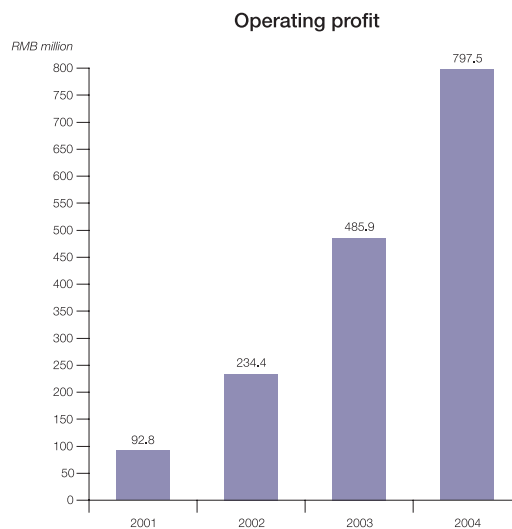
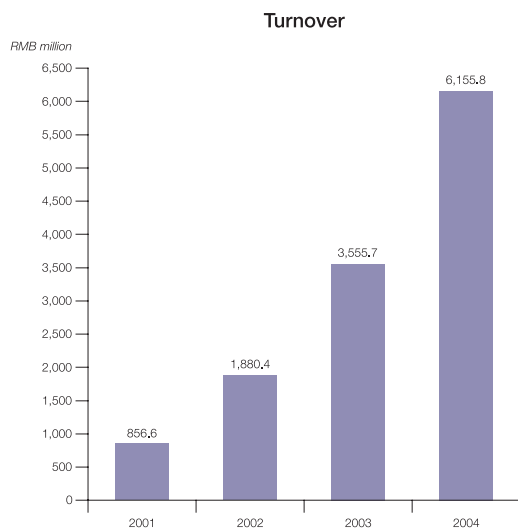
Corporate Information

FINANCIAL CALENDAR INFORMATION

Latest time for lodging transfer documents with the Company's H-Share Registrar and Transfer Office in order to be entitled to attend the Annual General Meeting	4:00 p.m., 26th April, 2005
Book closure period	27th April, 2005 to 27th May, 2005
Latest time for returning the reply slip for attending the Annual General Meeting	7th May, 2005
Date of the Annual General Meeting	27th May, 2005
Dividends	Interim dividend paid RMB0.15 per share Proposed final dividend RMB0.15 per share Proposed payment date of final dividend 24th June, 2005

Financial Highlights

	As at 31st December,	
	2003	2004
	RMB'000	RMB'000
Total assets	2,371,908	4,914,308
Total liabilities	1,897,408	2,757,587
Owners' equity	474,500	2,156,721





Financial Highlights

Turnover	+73.1% to approximately RMB6,155.8 million
Operating profit	+64.1% to approximately RMB797.5 million
Net profit attributable to shareholders	+94.2% to approximately RMB538.9 million
Earnings per share	+35.7% to approximately RMB1.75 per share
Net cash and cash equivalents	approximately RMB1,774.2 million

- Proposed final dividend is RMB0.15 per share. With an interim dividend of RMB0.15 per share paid for the year ended 31st December, 2004 (the "Period"), the total dividend for the full year of 2004 amounts to RMB0.30 per share, representing an increase of 50% when compared to that for the full year of 2003
- Successfully listed our H Shares on the Main Board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange") on 11th March, 2004. The net initial public offering ("IPO") proceeds were approximately RMB1,226.9 million
- Recorded high turnover and operating profit growth due to the significant increase in production and sales volume
- Continued expansion of our customer base and consolidation of our leading position in our principal product markets, namely the 15 tonnes (and above) heavy-duty trucks and the 5 tonnes (and above) wheel-loaders sectors with our market share at approximately 78% and 75%, respectively
- Achieved outstanding performance by offering quality products despite the negative market sentiment arising from the macro-austerity measures implemented by the central government of the People's Republic of China (the "PRC")
- Financial position significantly enhanced after the IPO

Chairman's Statement



Dear Shareholders:

The Company started a new chapter in its corporate history when its H-Shares were successfully listed on the Main Board of the Stock Exchange on 11th March, 2004. With strong support and recognition from investors in the international markets, the IPO was well received by international investors and the public investors in Hong Kong. The international placing was over-subscribed by approximately 52 times and the Hong Kong public offer also recorded an impressive subscription rate of approximately 928 times of the total number of shares under the public offer. The net proceeds from the IPO were approximately RMB1,226.9 million (including the funds raised as a result of the full exercise of the over-allotment option in connection with the IPO). Such net proceeds are being used to implement the future plans as stated in the prospectus of the Company dated 26th February, 2004. Over one year has elapsed since the IPO and investors' confidence in the Company's operating strategies and models as well as our industry prospects is reflected by the outstanding performance of our H-Share price.

REVIEW

The Company is principally engaged in the manufacture and sale of high-speed, heavy-duty WD615 and WD618 diesel engines and other related parts and products. The Company manufactures four series of WD615 diesel engines, namely vehicle engines (for heavy-duty vehicles and coaches), construction machine engines, vessel engines and power generator engines. We play a very active role in China in supplying diesel engines used in heavy-duty vehicles with a load capacity of 15 tonnes (and above) and wheel-loaders with a load capacity of 5 tonnes (and above), representing approximately 78% and 75% market share, respectively in 2004.

China maintained a very strong economic growth in 2004 despite the implementation of tightened macro-economic control policies on infrastructure investments by the PRC central government. In 2004, China's gross domestic product (GDP) grew by approximately 9.5% compared to 9.1% in 2003.



Chairman's Statement

In 2004, the Company further consolidated and increased its market share in its core products. With the support of our advanced production technology, high production capacity and experienced staff, we were able to supply a diverse range of quality products to our customers at very competitive prices. For the Period, our operating results significantly improved and far exceeded our annual targets. In 2004, the Company recorded a turnover of approximately RMB6,155.8 million, representing a year-on-year growth of approximately 73.1%. Operating profit amounted to approximately RMB797.5 million, approximately 64.1% higher, as compared to that of the previous year. Net profit attributable to shareholders increased by approximately 94.2% year-on-year, to approximately RMB538.9 million and earnings per share reached approximately RMB1.75, representing an increase of approximately 35.7%. During the Period, all of the Company's core products, namely diesel engines for heavy-duty vehicles and diesel engines for construction machineries, delivered outstanding results with turnover increased by approximately 91.5% and 23.6% respectively.

At the end of 2004, the Company invented the Euro III WP10 and WP12 series of diesel engines with 10–12 litre displacement with up to 480 horsepower. The Company believes that the Euro III diesel engines can be manufactured by using the existing new production lines in 2005 if such orders received by the Company. This indicates that the Company will, in advance, fulfil the requirements from the PRC central government with Euro III emission standards compliance for diesel engines used in heavy-duty trucks by 2008.

During the Period, the Company remained committed to enhancing corporate governance subsequent to its listing. Our management decision-making efficiency has also increased by the introduction and implementation of the enterprise resources planning (office management), production data management and financial management systems. Major efforts were made to integrate internal resources, improve sales and after sales service networks, standardize our business process and unify sales and marketing system. A unified performance appraisal system was introduced and the structure of human resources was optimized.

DIVIDENDS

In view of the Company's solid financial performance and sound balance sheet, and in order to share with our investors the fruits of China's fast economic growth as well as the Company's robust performance, the board of directors of the Company (the "Board") recommended the payment of a final dividend of RMB0.15 per share, subject to approval by shareholders at the annual general meeting to be held on 27th May, 2005 (the "Annual General Meeting").

PROSPECTS

Looking ahead, although the diesel engines market in China is expected to remain competitive and challenging, the future of our Company is still optimistic and our industry is still full of opportunities. In addition to our continuous effort to strengthen and consolidate our leading positions in the 15 tonnes (and above) heavy-duty trucks and the 5 tonnes (and above) wheel-loaders markets, the Company will also seek further to explore other markets including, for example, coaches with a length of 11 meters (and above), and to further broaden our customer base.

We will further expand our production capacity and the range of high value-added products. To this end, the second new production line with an annual capacity of over 30,000 sets of diesel engines commenced commercial production in April 2005. We will also continue to improve our information system and employ high-calibre staff to further

Chairman's Statement

strengthen our senior management capability. From time to time, we will assess the market demand and, if necessary, implement appropriate expansion plans to further increase our production capacity. Our strategy is to leverage on our strong financial position and technical expertise as well as the experience of our strong management team, and through a combination of further development of and investment in our existing core business and, or establishment of strategic alliance and, or synergistic acquisitions, to bring further growth to our business and to deliver better return to our shareholders.

With reference to our announcement dated 28th September, 2004, the Company has entered into a framework agreement with 中國重型汽車集團有限公司 (China Heavy Duty Truck Group Co., Ltd) ("CHDTGL"), under which CHDTGL has agreed to permit the Company to conduct due diligence in relation to 杭州汽車發動機廠 (Hangzhou Motor Engine Factory) ("Hangqi") which is a wholly-owned subsidiary of CHDTGL. As at the date of this annual report, the said due diligence has been completed and the relevant valuation work on the assets of Hangqi is to commence. Due to the on-going restructuring of CHDTGL, the evaluation process has taken longer than we expected. However, the directors of the Company (the "Directors") are still confident that the transaction can be completed before 31st December, 2005 if the terms can be agreed by CHDTGL and all relevant approvals required from the PRC government can be obtained and the restructuring of the CHDTGL group of companies can be completed without delay.

The Company will also focus on the research and development on new generation of diesel engines with Euro IV emission standard compliance based on newly invented Euro III WP10 and WP12 series of diesel engines. The Company expects that the above-mentioned research and development project will be commenced in the end of 2005 and can be completed by 2008.

APPRECIATION

We believe that the delivery of high quality products and after sales services is only possible with our diligent, dedicated, professional and experienced employees, and only by retaining these qualified employees can the Company achieve sound and rapid growth in face of the competitive landscape in the future. So I would like to pay tribute to our staff, to whom we will endeavor to provide attractive career development opportunities with a view to nurturing and building a loyal and incentivised workforce.

We are also privileged to have the service of our independent Directors and non-executive Directors, being representatives of our strategic partners, who bring with them a wealth of experience and for whose contributions to the Company during the past year I am deeply grateful.

Last but not least, may I express sincere appreciation to all shareholders for their support and pledge that every effort will be made to ensure that all of you will benefit as China's economic growth continues.

I would also like to thank my fellow Board members and the management for their hard work and dedication, as well as our customers for their continuous support.

On behalf of the Board
Tan Xuguang
Chairman

Hong Kong, 6th April, 2005



Management Discussion and Analysis of Results of Operations and Financial Position

INDUSTRY REVIEW

Heavy-duty vehicles industry

The development of road system, especially highway system, and the strong economic growth in the PRC have stimulated the sale of vehicles, especially heavy-duty vehicles in the PRC. Furthermore, highway transportation services, being more economical and efficient, sales of heavy-duty vehicles have been rising very rapidly in recent years, and the production of heavy-duty vehicles has surpassed that of medium-duty vehicles. A sizeable proportion of the unit sales of heavy-duty vehicles with a load capacity of 15 tonnes (and above) in the PRC is concentrated in a few manufacturers, which are the major customers of the Company such as: China Heavy Duty Truck Group Company Limited (“CHDTGL”), Chongqing Hongyan Heavy Duty Motor Company Limited (“Chongqing Hongyan”), Shaanxi Heavy-duty Company Limited (“Shaanxi Motor”), Beijing Futian Motor Company Limited (“Beijing Futian”), Baotou North-Benz Heavy-duty Truck Co., Ltd. (“North-Benz”), etc. Although during the Period, the PRC central government implemented a series of austerity measures, the sales of heavy-duty vehicles with a load capacity of 8 tonnes (and above) was not much affected. In the PRC, the total sales of heavy-duty vehicles with a load capacity of 8 tonnes (and above) during the Period rose by 45% as compared with that of the same period of 2003. Major truck manufacturers engaged in manufacturing heavy-duty vehicles with a load capacity of 15 tonnes (and above) also recorded very impressive growth rates at the range of approximately 80% to 150%.

It is estimated that approximately 80% of the medium to heavy-duty vehicles in the PRC are frequently overloaded in previous years. Lower toll charges for smaller trucks are the main cause for overloading. The PRC central government is cracking down hard on the widespread practice of truck overloading. Furthermore, toll charges for heavy-duty vehicles with a load capacity of 15 tonnes (and above) was reduced by approximately 30%. All these have stimulated the demand for heavy-duty vehicles with a load capacity of 15 tonnes (and above) and also accelerated the pace of truck-capacity upgrading in the PRC.

The said government crackdown on truck overloading also means that transportation companies that strive to remain in business and make a profit will be more inclined to upgrade their existing medium-duty vehicles to heavy-duty vehicles. The Directors believe that rising port container throughput, highway cargo shipment as well as the property and infrastructure development will remain the main drivers for the growth of 15 tonnes (and above) trucks in the years ahead.

Construction machines — wheel loaders

Wheel loaders with a load capacity of 5 tonnes (and above), being our second-most important market, is also showing strong growth during the Period.

In recent years, the wheel loader market grew by over 29% year-on-year. During the Period, the implementation of a series of austerity measures with credit-tightening policies by the PRC central government adversely affected the sales of some categories of the construction machines such as excavators to a certain extent. But there is no clear sign of over supply of construction machines, especially in wheel loaders with a load capacity of 5 tonnes (and above). The sales growth of wheel loaders only slowed down mildly since the

Management Discussion and Analysis of Results of Operations and Financial Position

implementation of the said austerity measures. A sizeable proportion of the sales of construction machines with a load capacity of 5 tonnes (and above) in the PRC is concentrated in a few manufacturers which are the major customers of the Company, such as: Guangxi Liugong Machinery Co., Ltd. (“Guangxi Liugong”), Shanghai Longgong Machinery Company Limited (“Shanghai Longgong”), Fujian Longyan Construction (Group) Company Limited (“Fujian Longyan”), Shandong Lingong Construction Machinery Co., Ltd. (“Shandong Lingong”), etc.

BUSINESS REVIEW

The Company is one of China's leading high-speed, heavy-duty diesel engine manufacturers, supplying mainly to certain major domestic truck and construction machine makers. The Company's core products are its six-cylinder, 110–266kW output, 9.7 litre displacement WD615 diesel engines. The Company also launched the WD618 series of diesel engines in 2000, which have a higher power output of 265–323kW. At the end of 2004, the Company invented the Euro III diesel engines with 10–12 litre displacement and higher horsepower up to 480 horsepower. The Euro III diesel engines will be required by China government to be adopted in all heavy-duty vehicles by 2008. The Company believes that the Euro III diesel engines can be manufactured by using the new production lines installed during the Period if such orders received by the Company in 2005.

Over the past decade, emission and noise control regulations have become increasingly stringent, and against this background, the technologies for diesel engines in this respect have also been greatly improved.

China has implemented Euro II emission standards since September 2004. Demand for heavy-duty diesel engines from the heavy-duty vehicles and construction machines industries has also increased in the past few years due to the economic growth of, the improvement of road systems of, and increases in investment in heavy infrastructure in the PRC. The Directors believe that the development of environmental-friendly investment in heavy-duty diesel engines will be a major trend of the PRC's diesel engine industry.

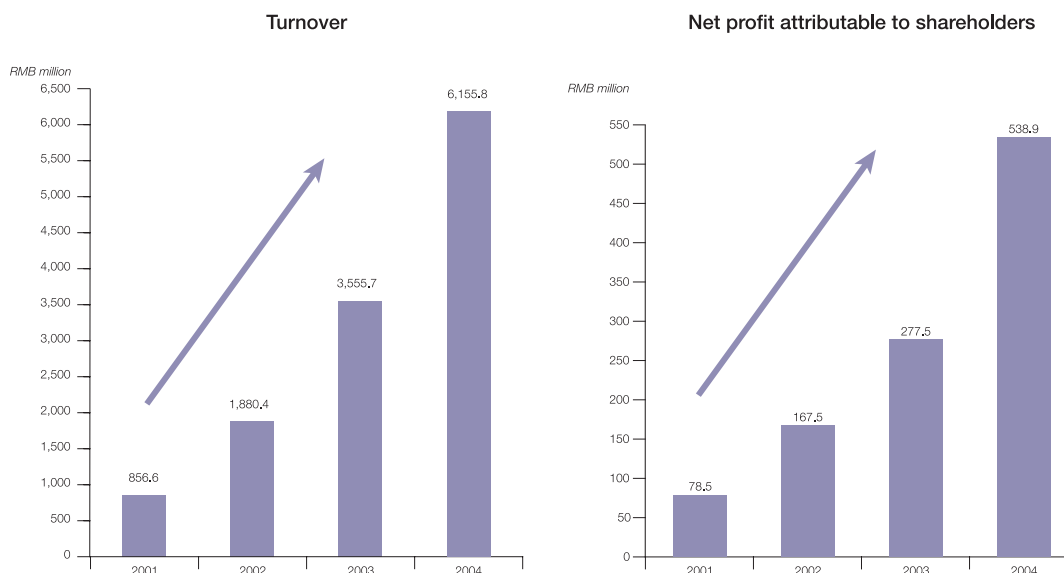
The Company has a very stable customer base which includes certain well-known market leaders in their industries including: CHDTGL, Shaanxi Motor, Guangxi Liugong, Shanghai Longgong, Shandong Lingong, North-Benz, Chongqing Hongyan, etc. During the Period, sales to our top five customers accounted for approximately 62.2% of our total turnover and top ten customers represented approximately 76.0% of our total turnover.



Management Discussion and Analysis of Results of Operations and Financial Position

FINANCIAL REVIEW

During the Period, the Company recorded significant growth in both turnover and net profit attributable to shareholders.



The significant increase in turnover and net profit attributable to shareholders were attributable to the significant increase in the demand for our products together with the increasing production capacity of diesel engines as a result of the improvement in our existing production lines. In addition, the expansion in scale that we achieved have enabled us to absorb fixed production costs more effectively and to enjoy greater bargaining power in purchasing raw materials, in particular, the purchases of out-sourced parts for the manufacture of diesel engines. This in turn enabled us to adopt a more flexible pricing strategy.

Sales of WD615 and WD618 series engines

Turnover of the Company for the Period amounted to approximately RMB6,155.8 million, representing an increase of approximately RMB2,600.1 million or approximately 73.1% over the same period in 2003. Turnover was derived mainly from the sales of diesel engines used in heavy-duty trucks and construction machines, which accounted for approximately 60.7% and 27.7% of the total turnover, respectively. The significant increase in turnover was mainly attributable to the robust market demand for our WD615 engines. To meet increasing demand, the Company has further expanded its production capacity and improved its operational efficiency during the Period. The expansion in scale also enabled the Company to achieve economies of scale and adopt a more flexible and competitive pricing strategy for our products. As a result of the above factors, the Company's net profit attributable to shareholders for the Period increased to approximately RMB538.9 million, representing a approximately 94.2% increase as compared to that for the same period in 2003.

Management Discussion and Analysis of Results of Operations and Financial Position

Sales of engine parts

In addition to the production and sale of engines, the Company also engages in the production and sales of engine parts. During the Period, the Company recorded an approximately 413.4% increase in sales of engine parts from approximately RMB100.0 million in 2003 to approximately RMB513.5 million. The surge was mainly attributable to the increase in sale volume of diesel engines from approximately 80,480 units in 2003 to approximately 134,460 units in 2004 as a result of the continuing strong growth in heavy-duty vehicles and construction machines markets in the PRC. The sales of diesel engine parts represented approximately 8.3% (2003: 2.8%) of the Company's turnover during the Period.

Gross profit and gross profit margin

During the Period, the Company's gross profit increased by approximately 74.9% to RMB1,504.7 million (2003: RMB860.3 million) as a result of increase in the sales volume from approximately 80,480 units in 2003 to approximately 134,460 units of diesel engines in 2004 and the gross profit margin of the Company remained relatively the same as of previous year.

Finance costs

Finance costs represent the interest expenses paid on bank borrowings wholly repayable within five years during the Period.

The Company maintained very low level of bank borrowings. Total bank loans decreased from approximately RMB151.7 million in 2003 to only RMB20 million in 2004 due to sufficient cash being generated from the operating business during the Period. The increase in finance costs was mainly due to the fact that certain bills receivables were discounted to banks without recourse and this led to the increase in finance costs from approximately RMB30.4 million in 2003 to approximately RMB53.2 million for the Period.

Taxation

PRC Enterprise income tax for the Company was calculated at statutory income tax rate of 33% (2003: 33%) of the assessable profit except that the Company's Chongqing branch is taxed at a preferential rate of 15% (2003: 15%) pursuant to the relevant laws and regulations in the PRC. The tax charges during the Period were approximately RMB205.5 million in aggregate, representing an effective tax rate of approximately 27.6% (2003: 39.1%). The difference in the effective tax rate of 27.6% compared to the statutory rate of 33% was due to the fact that the Company was granted a tax credit of approximately RMB63.6 million relating to its acquisition of certain PRC made machinery and equipment. The amount of tax credit is calculated as 40% of the current year's additions of PRC made machinery and equipment for production use.

According to the Notice of the Ministry of Finance and the State Administration of Taxation concerning certain preferential policies on enterprise income tax (財政部、國家稅務總局《關於企業所得稅若干優惠政策的通知》) and the Notice of the State Administration of Taxation concerning the proper implementation of the continuing administrative work after the



Management Discussion and Analysis of Results of Operations and Financial Position

cancellation and delegation of the examination and approval procedure for enterprise income tax (國家稅務總局《關於做好已取消和下放管理的企業所得稅審批項目後續管理工作的通知》), as the Company is a high technology enterprise and its new production facilities and registered address are situated in the industrial park administered by the State (the “State Industrial Park”), and the production at the State Industrial Park has already commenced in April 2005, the Company is now entitled to enjoy preferential enterprise income tax treatment at a reduced tax rate of 15% in respect of the taxable profit generated from the new production facilities at the State Industrial Park starting from the tax assessable year of 2005 without the need to obtain any prior approval from PRC authorities (as compared to the 33% taxation rate charged on the Company’s taxable profit made at its existing production facilities at its previous registered address). For details, please refer to the announcement of the Company dated 17th March, 2005.

Net profit margin

The net profit margin increased substantially from approximately 7.8% in 2003 to approximately 8.8% for the Period, which was primarily due to the improvement in operational efficiency, benefit from the economy of scale enjoyed by the Company and the tax credit granted to the Company as mentioned above.

Liquidity and financial resources

The Company had a very solid financial position and maintained a strong and steady cash inflow from its operating activities. As at 31st December, 2004, the net cash and cash equivalents of the Company amounted to approximately RMB1,774.2 million, representing an increase of approximately 424.6% from approximately RMB338.2 million as at 31st December, 2003. Such increase was primarily due to the cash inflow from operations and the net IPO proceeds of approximately RMB1,226.9 million received by the Company in March 2004.

The Company has sufficient financial resources to fund its operations, as well as its current investment needs and development plans disclosed in the prospectus of the Company dated 26th February, 2004.

Earnings per share — basic

The calculation of basic earnings per share is based on the net profit attributable to shareholders for the Period of approximately RMB538.9 million (2003: RMB277.5 million) and on the weighted averaged number of approximately 308,005,000 (2003: 215,000,000) shares in issue during the Period. The basic earnings per share for the Period was approximately RMB1.75, which represented an increase of approximately 35.7% compared with the same period in 2003. The significant increase in earnings per share was due to the increase in net profit attributable to shareholders for the Period by approximately 94.2% compared to that of the same period in 2003.

Capital structure

During the Period, the Company’s bank borrowings were primarily denominated in RMB while its cash and cash equivalents were held in RMB and Hong Kong dollars.

Management Discussion and Analysis of Results of Operations and Financial Position

It is the intention of the Company to maintain an appropriate mix of equity and debt to ensure an efficient capital structure from time to time. As at 31st December, 2004, the Company had debts of approximately RMB20 million and the gearing ratio was only a mere approximately 0.4% (2003: 6.4%) (total debt/total asset).

Segment information

The Company is principally engaged in the manufacture and sale of WD615 and WD618 diesel engines and its related parts. As substantially all of the Company's turnover and operating results during the Period were derived from the PRC, no analysis of business and geographical segment is prepared for the Period.

Pledge of assets

As at 31st December, 2004, bank deposits and bills receivables of approximately RMB334.4 million (2003: RMB391.6 million) and RMB119.9 million (2003: RMB77.1 million) were pledged to secure banking facilities granted to the Company respectively.

Foreign exchange risk exposure

As almost all of the operations of the Company are located in the PRC. Its operating expenses as well as most of capital expenditure of the Company were denominated in RMB for the Period. Therefore, the Company did not experience any material difficulties or effects on its operations or liquidity as a result of fluctuations in currency exchange during the Period. The Directors believe that the Company will have sufficient foreign exchange currency to meet its foreign exchange requirements.

Contingent liabilities

The Company had no material contingent liabilities as at 31st December, 2004.

Capital commitments

As at 31st December, 2004, the Company had approximately RMB423.6 million (2003: RMB322.7 million) capital commitments, principally for the capital expenditure in respect of purchase of property, plant and equipment.

Capital expenditure

During the Period, the Company's capital expenditure of property, plant and equipment and intangible assets amounted to approximately RMB774.9 million. This was mainly attributable to the installation of new production lines, modification of existing production lines, research and development of Euro III diesel engines and acquisition of intangible assets related to trademarks.



Management Discussion and Analysis of Results of Operations and Financial Position

Human resources practice

As at 31st December, 2004, the Company had a total of over 5,200 employees. As the Company believes people are the cornerstone of its success, the Company has long been concerned with its employees' development by organizing various training courses to broaden their horizon. During the Period, some of the senior management of the Company attended training courses organised by reputational domestic and overseas universities such as 北京清華大學 (Peking Tsinghua University) and National University of Singapore (新加坡國立大學). Employees are remunerated based on their performance, experience and the prevailing industry practices, with compensation policies and packages being reviewed on a yearly basis. Bonus and commission may also be awarded to employees based on internal performance evaluation.

The Company has established an incentive scheme for its senior management. Under this scheme, up to 5% of the audited annual profit after tax of the Company will be paid as bonus to the Directors and other senior management staff each year.

Directors, Supervisors and Senior Management

DIRECTORS

Executive Directors

Mr. Tan Xuguang, aged 43, is the chairman of the Board and an executive Director of the Company. Mr. Tan joined the Company in 1977 and had held various positions including the deputy director of the import and export department, assistant to general manager, deputy general manager and general manager of Weichai Factory. Mr. Tan is a senior economist and holds a master's degree in 動力工程 (power engineering) from Tianjin University. Mr. Tan is the general manager of Weichai Factory and a director and a deputy general manager of CHDTGL. Mr. Tan is responsible for formulating the overall business development strategies for the Company.

Mr. Tan is a member of the 10th NPC. Mr. Tan received the “Outstanding Entrepreneur of the National Machinery Industry” award in 2002. Mr. Tan was honoured “第二屆中國經濟十大新聞人物” (One of the Top Ten News Makers in China Economy in 2004), the “most admired and outstanding manager by PRC users in 2004” in December 2004, the “best CEO/president of the engine sector within the PRC car industry” in February 2005, and the “most distinguished founding PRC entrepreneur” in March 2005.

Mr. Xu Xinyu, aged 41, is an executive Director and General Manager — Operations of the Company. Mr. Xu joined the Company in 1986 and had held the positions of director of corporate affairs office, director of human resources department, assistant to general manager, deputy general manager and executive deputy general manager of Weichai Factory. Mr. Xu is a senior economist and was graduated from 聊城師範學院 (Liaocheng Institute of Education) in 1986 with a bachelor's degree in science. Mr. Xu is responsible for implementing the business strategies and overseeing the operations of the Company.

Mr. Sun Shaojun, aged 39, is an executive Director and General Manager — Technology of the Company. Mr. Sun joined the Company in 1988 and had held the positions of assistant supervisor and supervisor of the engineering department, assistant to general manager and the chief engineer of Weichai Factory. Mr. Sun is a senior engineer and was graduated from 北京航空學院 (Beijing Aviation College) in 1988 with a master's degree in 工學 (engineering). Mr. Sun is responsible for overseeing the improvement and research and development of the Company's products and other technical matters.

Mr. Zhang Quan, aged 41, is an executive Director and General Manager — Marketing of the Company. Mr. Zhang joined the Company in 1986 and had held the positions of directors of the quality control department, the production department and the marketing management department, assistant to general manager and deputy general manager of Weichai Factory. Mr. Zhang is an engineer and was graduated from 山東工業大學 (Shandong Industrial University) in 1986 with a bachelor's degree in 工學 (engineering). Mr. Zhang is responsible for formulating and implementing the marketing activities of the Company.



Directors, Supervisors and Senior Management

Non-executive Directors

Mr. Yeung Sai Hong, aged 51, was appointed as a non-executive Director of the Company on 18th December, 2002. Mr. Yeung is currently a chairman of Peterson. He is also a member of the 9th Shandong Provincial Committee of the Chinese People's Consultative Conference.

Mr. Chen Xue Jian, aged 48, was appointed as an independent non-executive Director on 29th June, 2004 to replace Mr. Liu Zheng who has resigned on the same date. Mr. Chen is the general manager and legal representative of Weifang Investment Company, Mr. Chen served as deputy director of 濰坊市財政局 (Finance Bureau of Weifang City) and deputy director of 濰坊市地方稅務局 (Tax Bureau of Weifang City).

Mr. Yao Yu, aged 34, was appointed as a non-executive Director of the Company on 18th December, 2002. He is an investment manager of Shenzhen Investment. He holds an MBA degree from the China Europe International Business School in 2000.

Mr. Li San Yim, aged 53 and a Hong Kong resident, was appointed as a non-executive Director of the Company on 18th December, 2002. He founded Fujian Longgong (a Promoter) in 1993, of which he is the chairman. Fujian Longgong is principally engaged in the manufacture and sale of, among others, wheel-loaders.

Mr. Tong Jingen, aged 42, was appointed as a non-executive Director of the Company on 18th December, 2002. Mr. Tong was the engineer of the supply office, director of quality control office of ancillary components department, and deputy director of the corporate management department of 濟汽總廠 (Jiqi Factory), director of the corporate management office of CHDTGL, manager of treasury department of 重汽銷售公司 (Jiqi Sales Company), and deputy chief economist and manager of treasury department, and he is currently the chief economist, of CHDTGL. He holds a master's degree in 工學 (engineering) from Tsinghua University in 1989.

Ms. Zhang Fusheng, aged 47, was appointed as a non-executive Director of the Company on 18th December, 2002. Ms. Zhang joined Weichai Factory in 1975. She was deputy director of audit department, director of finance department, deputy chief accountant and assistant to general manager, and she is now the chief accountant and financial controller of Weichai Factory. She is a senior accountant.

Mr. Julius G. Kiss, aged 77, was appointed as a non-executive Director of the Company on 18th December, 2002. Mr. Kiss is the chairman of IVM.

Mr. Feng Gang, aged 44, was appointed as a non-executive Director of the Company on 20th October, 2002. Mr. Feng joined Weichai Factory in 1976. He was the deputy manager of the sales department of the Jinan division of Huaxia Securities Limited and the general manager of Shandong Trust.

Directors, Supervisors and Senior Management

Independent non-executive Directors

Mr. Zhang Xiaoyu, aged 60, was reappointed as an independent non-executive Director on 29th June, 2004. Mr. Zhang served as Deputy Director of 中國國家機械工業局 (State Machinery Industry Bureau of the PRC). He is a senior engineer with professor-grade treatment. Mr. Zhang is the vice-chairman of 中國機械工業聯合會 (China Machinery Industrial Association), chairman of 中國汽車工程學會 (China Vehicles Engineering Association) and chairman of 中國內燃機學會 (China Internal Combustion Engine Association).

Mr. Koo Fook Sun, Louis, aged 48, was reappointed as an independent non-executive Director of the Company on 29th June, 2004. Mr. Koo is the managing director of Hercules Capital Limited, and was the managing director and head of the corporate finance department of ABN AMRO Asia Corporate Finance Limited, a director and chief executive officer of Enerchina Holdings Limited (formerly known as Silvernet Group Limited, a company listed on the Stock Exchange) and an executive director of 401 Holdings Limited (listed on the Stock Exchange). Mr. Koo is a certified public accountant in the United States and Hong Kong and graduated from the University of California at Berkeley with a bachelor's degree in business administration in 1980.

Mr. Fang Zhong Chang, aged 62, was appointed as an independent non-executive Director on 15th December, 2004 and graduated from Harbin Industrial University, where he majored in Precision Instruments Studies (精密儀器專業). He previously served as engineer at Shandong Anqiu County Glasswork (山東安邱縣玻璃廠), Deputy Mayor of Anqiu County (安邱縣), Deputy Mayor of Weifang Municipal Government (濰坊市政府副市長), Secretary to the Municipal Disciplinary Committee of the Standing Committee of Weifang Municipal Committee (濰坊市委常市紀委書記), and Deputy Director of the Standing Committee of Weifang Municipal People's Congress (濰坊市人大常委會副主任). He was also a visiting researcher at the Chinese Academy of Management Science (中國管理科學院特邀研究員) and a member of the People's Congress for the Shandong Province (山東省人大代表).

Supervisors

Mr. Sun Chengping, aged 57, is a the chairman of the supervisory committee of the Company. He joined Weichai Factory in 1969 and was the refinement workshop supervisor, deputy general manager of Weichai Factory. Mr. Sun is a senior economist.

Mr. Wang Yong, aged 41, is a Supervisor of the Company. Mr. Wang joined Weichai Factory in 1984. He was the deputy director of production engineering department, director of engineering equipment department, deputy manager of the power branch, director of the corporate culture office of Weichai Factory and the director of the corporate affairs office of the Company. Mr. Wang is a senior engineer and was graduated from 上海交通大學 (Shanghai Transportation University) with a bachelor's degree in 工學 (engineering) in 1984.

Ms. Jiang Jianfang, aged 42, is a Supervisor of the Company. She is the deputy chief of the financial audit committee and a supervisor of 廣西柳工機械股份有限公司 (Guangxi Liugong Machinery Company Limited, a company listed on the Shenzhen Stock Exchange). Ms. Jiang is an accountant.



Directors, Supervisors and Senior Management

Senior management

Mr. Xu Hong, aged 45, is a General Manager — Manufacturing of the Company. Mr. Xu joined the Company in 1976 and held various positions including the deputy director of the casting branch and powering department, director of casting branch and manufacturing department.

Mr. Li Hong Gang, aged 41, is an assistant to General Manager — Operations of the Company. Mr. Li joined the Company in 1984 and held various positions including assistant director of capital construction department, deputy director of corporate affairs office, director of corporate planning department, securities department of Weichai factory. Mr. Li is the director and senior engineer of technological innovation department and holds a bachelor's degree.

Mr. Zhong Geng Hui, aged 48, is an assistant to General Manager — Marketing of the Company. Mr. Zhong joined the Company in 1975 and held various positions including deputy general manager of sales company of Weichai Factory. Mr. Zhong is an executive deputy general manager of market management department of the Company.

Mr. Liu Huisheng, aged 39, is the general manager of the Chongqing office of the Company. He joined the Company in 1989 and was a deputy general manager of the power branch and assistant to general manager of Weichai Factory. Mr. Liu holds a bachelor's degree.

Mr. Tong Dehui, aged 40, is the deputy General Manager — Technology and supervisor of the engineering department of the Company. He joined the Company in 1985 and was the assistant to supervisor, deputy supervisor and supervisor of the engineering department, deputy chief engineer and chief designer of Weichai Factory. Mr. Tong is a senior engineer and holds a bachelor's degree.

Mr. Wu Hongwei, aged 38, is the director of the finance department of the Company. He joined the Company in 1991 and was the assistant to director, deputy director and executive deputy director of the finance department of Weichai Factory and the chief accountant of Chongqing Weichai. Mr. Wu holds a bachelor's degree.

Mr. Ding Yingdong, aged 36, is the director of the human resources department of the Company. He joined the Company in 1990 and was the assistant to director of the marketing management department and deputy director of the corporate planning department and director of human resources department of Weichai Factory. Mr. Ding is an economist and holds a bachelor's degree.

Mr. Han Lisheng, aged 40, is the director of the planning and development department of the Company. He joined the Company in 1982 and was the director of the economic planning division of deputy director and director of the corporate planning department of Weichai Factory.

Directors, Supervisors and Senior Management

Mr. Feng Gang, aged 41, is the deputy Marketing general manager and deputy director of the marketing department of the Company. He joined the Company in 1986 and was assistant to general manager of sales company and executive deputy general manager of market management department of Weichai Factory. Mr. Fung is an engineer and holds a bachelor's degree.

Mr. Dai Lixin, aged 37, is the secretary to the Board and director of the securities department of the Company. He joined the Company in 1987 and deputy director of the treasury department of Weichai Factory. Mr. Dai is an economist and a university graduate.

Mr. Zhang Yuanfu, aged 41, is the chief financial officer, company secretary and the qualified accountant of the Company and is responsible for the accounting and finance functions and secretarial affairs of the Company. Mr. Zhang graduated from Shandong University and holds a bachelor's degree in economics. Mr. Zhang is a fellow member of the Association of Chartered Certified Accountants in the United Kingdom and an associated member of the Hong Kong Institute of Certified Public Accountants. Prior to joining the Company in September 2003, Mr. Zhang had worked for a number of companies listed in the main board and the GEM board of the Stock Exchange and has more than 18 years of experience in accounting and financial management.



Directors' Report

The Board has the pleasure to present our report and the audited financial statements of the Company for the Period.

REORGANISATION

The history and operations of Weichai Diesel Engine Works (the "Weichai Factory"), the predecessor of the Company, date back to 1953 as one of the earliest diesel engine manufactures in China. Weichai Factory is wholly owned by CHDTGL which is a State-owned enterprise. On 23rd December, 2002, Weichai Factory injected its operation assets and liabilities relating to the manufacture and sale of WD615 and WD618 engines and cash, and together with other promoters who contributed cash, established the Company as a joint stock limited company with limited liability in the PRC.

On 11th March, 2004, a total of 126,500,000 H Shares of the Company were listed on the main board of the Stock Exchange and raised the net proceeds of approximately RMB1,226.9 million including the fund raised as a result of full exercise of the over-allotment in connection with the IPO.

PRINCIPAL ACTIVITIES

The Company is principally engaged in the research and development, production and sale of high-speed heavy-duty WD615 and WD618 series diesel engines used in the heavy-duty vehicles, construction, machines, coaches, vessels and power generators. Substantially all of the Company's revenues and profits were derived from the production and sales of WD615 and WD618 diesel engines and were made within China. There were no significant changes in the nature of the Company's principal activities during the Period.

RESULTS AND APPROPRIATIONS

The results of the Company for the Period are set out in the income statement on page 51.

In view of the Company's solid financial performance and its sound balance sheet, and in order to share with our investors the fruits of China's fast economic growth as well as the Company's robust performance, the Directors have recommended the payment of a final dividend of RMB0.15 per share (2003 final dividend: RMB0.105 per share) to the shareholders on the register of members on 27th May, 2005, amounting to approximately RMB49,500,000, subject to approval by shareholders at the Annual General Meeting.

Directors' Report

FINANCIAL EXTRACTS

	Year ended 31st December,	
	2003	2004
	RMB'000	RMB'000
Turnover	3,555,670	6,155,779
Cost of sales	(2,695,351)	(4,651,073)
Gross profit	860,319	1,504,706
Other operating income	31,250	64,937
Distribution expenses	(197,660)	(391,838)
Administrative expenses	(160,770)	(295,436)
Research and development	(39,412)	(82,370)
Other operating expenses	(7,809)	(2,476)
Profit from operations	485,918	797,523
Finance costs	(30,425)	(53,159)
Profit before taxation	455,493	744,364
Taxation	(178,025)	(205,484)
Profit for the year	277,468	538,880
Dividends paid	20,439	72,075
Basic earnings per share	RMB1.29	RMB1.75

ASSETS AND LIABILITIES

	As at 31st December,	
	2003	2004
	RMB'000	RMB'000
Total assets	2,371,908	4,914,308
Total liabilities	1,897,408	2,757,587
Owners' equity	474,500	2,156,721



Directors' Report

USE OF PROCEEDS FROM THE COMPANY'S INITIAL PUBLIC OFFERING

Use of IPO Proceeds

In 2004, the Company raised approximately HK\$1,328.3 million by issuing H Shares. After deduction of issue expenses, the net proceeds from the issue were approximately RMB1,226.9 million. Of these proceeds, an aggregate amount of approximately RMB603 million was applied during the Period. Set out below is the Company's application of its IPO proceeds by category as per its future plans as stated in the prospectus of the Company dated 26th February, 2004.

	Investment amount committed RMB'million	Amount paid RMB'million
1. Establishment of an additional production line and modification of existing production line	420	420
2. Research and development of WD615 and WD618 Euro III engines	80	80
3. Expansion of existing sales and service network	80	80
4. Establishment of enterprise resources planning and production data management systems	54	23
Total:	634	603

SHARE CAPITAL

Details of movements during the Period in the share capital of the Company are set out in note 20 to the financial statements.

RETIREMENT BENEFITS SCHEME

In accordance with the rules and regulations in the PRC, the employees of the Company participate in various defined contribution retirement benefit plans operated by the relevant municipal and provincial social insurance management bodies in the PRC under which the Company and the employees are required to make monthly contributions to these plans calculated as a percentage of the employees' salaries during the Period or in accordance with the requirements of the operators of the plans. The contributions payable are charged as an expense to the profit and loss account as incurred. The Company has no obligation for payment of retirement benefits beyond the contributions.

Directors' Report

DISTRIBUTABLE RESERVES

Distributable reserves of the Company as at 31st December, 2004 calculated in accordance with the relevant accounting principles and financial regulations applicable to companies established in the PRC amounted to approximately RMB598,772,000 (2003: RMB191,933,000).

SHAREHOLDING STRUCTURE

The following table illustrates our shareholding structure after the Listing.

Shareholder	Number of Domestic Shares/Foreign Shares/H Shares	Approximate percentage of share capital
<i>Domestic Shares (Note 1):</i>		
福建龍岩工程機械(集團)有限公司 (Fujian Longyan Construction Machinery (Group) Company Limited) ("Fujian Longgong")	21,500,000	6.52
山東省企業托管經營股份有限公司 (Shandong Enterprise Trust Operation Company Limited) ("Shandong Trust")	10,000,000	3.03
24 natural persons (Note 2)	14,800,000	4.48
	46,300,000	14.03
<i>Foreign Shares (Note 3):</i>		
IVM Technical Consultants Wien Gesellschaft m.b.H. ("IVM")	10,750,000	3.26
Peterson Holdings Company Limited (培新控股有限公司) ("Peterson")	23,500,000	7.12
	34,250,000	10.38



Directors' Report

Shareholder	Number of Domestic Shares/Foreign Shares/H Shares	Approximate percentage of share capital
<i>Stated-owned Domestic Shares:</i>		
濰坊柴油機廠 (Weifang Diesel Engine Works) (“Weichai Factory”)	77,647,900	23.53
濰坊市投資公司 (Weifang Investment Company) (“Weifang Investment”)	19,311,550	5.85
廣西柳工集團有限公司 (Guangxi Liugong Group Company Limited) (“Guangxi Liugong”)	4,490,550	1.36
深圳市創新投資集團有限公司 (Shenzhen Chuangxin Investment Group Company Limited) (“Shenzhen Investment”)	21,500,000	6.52
	<hr/> 122,950,000	<hr/> 37.26
Sub-total:	<hr/> 203,500,000	<hr/> 61.67
H Shares (<i>Note 4</i>)	<hr/> 126,500,000	<hr/> 38.33
Total	<hr/> <hr/> 330,000,000	<hr/> <hr/> 100

Notes:

1. These are ordinary shares issued by the Company, with a par value of RMB1.00 each, which are subscribed for and paid up in RMB or credited as fully paid up.
2. Their details are set out in the prospectus of the Company dated 24th February, 2004.
3. These are ordinary shares issued by the Company, with a par value of RMB1.00 each, which are subscribed for and paid up in a currency other than RMB.
4. These are overseas listed Foreign Shares in the share capital of the Company, with a 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. These H Shares were issued in connection with the IPO.

Directors' Report

SUBSTANTIAL SHAREHOLDERS

As at 31st December, 2004, the interests and short positions of any person (other than a Director, the chief executive or Supervisor of the Company) in the shares and underlying shares of the Company as recorded in the register required to be kept under section 336 of the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong) (the "SFO") were as follows:

Name	Number of Domestic Shares (Note 7) and/or Foreign Shares (Note 8) (being shares of the same class)	Percentage of share capital comprising only Domestic Shares and Foreign Shares (being shares of the same class)	Number of H Shares (Note 9)	Percentage of share capital comprising only H Shares	Capacity	Type of interest held
濰坊柴油機廠 (Weichai Factory)	77,647,900	38.16%	Nil	—	Beneficial owner	Long
中國重型汽車集團有限公司 (CHDTGL) (Note 1)	77,647,900	38.16%	Nil	—	Interest of corporation controlled by this entity	Long
Peterson (Note 2)	23,500,000	11.55%	Nil	—	Beneficial owner	Long
Advantage Investment Corporation Limited (Note 2)	23,500,000	11.55%	Nil	—	Interest of corporation controlled by this entity	Long
福建龍岩工程機械(集團)有限公司 (Fujian Longgong)	21,500,000	10.57%	Nil	—	Beneficial owner	Long
倪銀英 (Ni Yinying) (Note 3)	21,500,000	10.57%	Nil	—	Spouse	Long
濰坊市投資公司 (Weifang Investment) (Note 4)	19,311,550	9.49%	Nil	—	Beneficial owner	Long
深圳市創新投資集團有限公司 (Shenzhen Investment)	21,500,000	10.57%	Nil	—	Beneficial owner	Long
深圳市投資管理公司 (Shenzhen Investment Management Company) (Note 5)	21,500,000	10.57%	Nil	—	Interest of corporation controlled by this entity	Long
IVM	10,750,000	5.28%	Nil	—	Beneficial owner	Long
ADTECH Advanced Technologies AG (Note 6)	10,750,000	5.28%	Nil	—	Interest of corporation controlled by this entity	Long
J.P. Morgan Chase & Co.	Nil	—	19,058,000	15.07%	Investment Manager	Long

Notes:

- 中國重型汽車集團有限公司 (CHDTGL), a State-owned enterprise, is the holding company of 濰坊柴油機廠 (Weichai Factory) and holds the entire capital of Weichai Factory.
- Yeung Sai Hong, a non-executive Director, is beneficially interested in the entire issued share capital of Tingho Nominees Limited, which in turn owns 100% of Advantage Investment Corporation Limited, which is interested in 90% of the entire issued share capital of Peterson.
- The capital of 福建龍岩工程機械(集團)有限公司 (Fujian Longgong) is 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) is a State-owned enterprise.



Directors' Report

5. 深圳市投资管理公司 (Shenzhen Investment Management Company) is interested in approximately 33.73% of the capital of 深圳市創新投資集團有限公司 (Shenzhen Investment).
6. ADTECH Advanced Technologies AG is wholly owned by Julius G. Kiss, a non-executive Director, and it is interested in the entire capital of IVM.
7. Domestic Shares are ordinary shares issued by the Company, with a par value of RMB1.00 each, which are subscribed for and paid up in RMB or credited as fully paid up.
8. Foreign Shares are ordinary shares issued by the Company, with a par value of RMB1.00 each, which are subscribed for and paid up in a currency other than RMB.
9. H Shares are overseas listed Foreign Shares in the share capital of the Company, with a par value of RMB1.00 each and are subscribed for and traded in Hong Kong dollars, and they are currently listed on the Stock Exchange.
10. 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.

Save as disclosed above, the Company has not been notified of any other relevant interests or short positions in the issued share capital of the Company as at 31st December, 2004, which were recorded in the register as required to be kept under Section 336 of the SFO.

MAJOR SUPPLIERS AND CUSTOMERS

The aggregate sales attributable to the Company's five largest customers comprised approximately 62.2% of the Company's total sales and the sales attributable to the Company's largest customer was approximately 26.0% of the Company's total sales for the Period.

The aggregate purchases during the Period attributable to the Company's five largest suppliers were less than 30% of the Company's total purchases.

At 31st December, 2004, CHDTGL was an only shareholder holding more than 5% of the Company's share capital. CHDTGL, together with companies under its control, was one of the Company's five largest customers. All transactions between the Company and the customer concerned were carried out on normal commercial terms.

Save as disclosed in this annual report, at no time during the Period did any Director, any associate of a Director, or any shareholder of the Company, which to the best knowledge of the Directors owned more than 5% of the Company's issued share capital, had any beneficial interests in the Group's five largest customers and suppliers mentioned above.

PROPERTY, PLANT AND EQUIPMENT

Details of movements during the Period in property, plant and equipment of the Company are set out in note 12 to the financial statements.

Directors' Report

DIRECTORS AND SUPERVISORS

The Directors and Supervisors of the Company during the Period and up to the date of this report were:

	Position	Date of appointment/ (resignation)
Executive Directors:		
Tan Xuguang	Executive Director, Chairman	18th December, 2002
Xu Xinyu	Executive Director and General Manager — Operations	18th December, 2002
Sun Shaojun	Executive Director and General Manager — Technology	18th December, 2002
Zhang Quan	Executive Director and General Manager — Marketing	18th December, 2002
Non-executive Directors:		
Yeung Sai Hong	Non-executive Director	18th December, 2002
Liu Zheng	Non-executive Director	appointed on 18th December, 2002 and resigned on 29th June, 2004
Chen Xue Jian	Non-executive Director	29th June, 2004
Yao Yu	Non-executive Director	18th December, 2002
Li San Yim	Non-executive Director	18th December, 2002
Tong Jingen	Non-executive Director	18th December, 2002
Zhang Fusheng	Non-executive Director	18th December, 2002
Julius G. Kiss	Non-executive Director	18th December, 2002
Feng Gang	Non-executive Director	20th October, 2002
Independent Non-executive Directors:		
Koo Fook Sun, Louis	Independent Non-executive Director and Chairman of the Audit Committee	29th June, 2004
Zhang Xiaoyu	Independent Non-executive Director	29th June, 2004
Fang Zhong Chang	Independent Non-executive Director	15th December, 2004
Supervisors:		
Sun Chengping	Chairman of the Supervisory Committee	18th December, 2002
Wang Yong	Supervisor	20th October, 2003
Jiang Jianfang	Supervisor	18th December, 2002



Directors' Report

The Company has received from each of the Independent Non-executive Directors an annual confirmation of his independence pursuant to the Listing Rules and the Company considers that each of the Independent Non-executive Directors to be independent based on the relevant criteria set out in the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules").

DIRECTORS' AND SUPERVISORS' SERVICE CONTRACTS

Each of the Executive Directors has entered into a service contract with the Company commencing 24th November, 2003 and which will end on 17th December, 2005.

The term of appointment of each of the Non-Executive Directors and Supervisors is from 18th December, 2002 to 17th December, 2005, save and except that the term of appointment of Chen Xue Jian (a Non-executive Director) is from 29th June, 2004 to 17th December, 2005.

Each of the Independent Non-Executive Directors has a fixed term of appointment commencing the date of his appointment by the shareholders of the Company and ending on the conclusion of the next annual general meeting of the Company. At the Annual General Meeting, each of the three Independent Non-Executive Directors will offer himself for re-election for a term ending (i) on the next annual general meeting of the Company ("Next AGM"); or (ii) the conclusion of the extraordinary general meeting (if any) of the Company convened prior to the Next AGM at which he is re-appointed as Independent Non-Executive Director for a term beyond the conclusion of the Next AGM (whichever is the earlier).

None of the Directors proposed for re-election at the Annual General Meeting has a service contract with the Company which is not determinable by the Company within one year without payment of compensation (other than payment of statutory compensation).

Directors' Report

DIRECTORS' AND SUPERVISORS' INTERESTS

As at 31st December, 2004, the interests and short positions of the Directors, Supervisors, the chief executive of the Company and their associates in the shares, underlying shares and debentures of the Company and its associated corporations (within the meaning of Part XV of the SFO) which would have to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they are taken or deemed to have under such provisions of the SFO), or which would be required, pursuant to Section 352 of the SFO, to be entered in the register referred to therein, or which would be required to be notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transaction by Directors of Listed Companies in the Listing Rules, were as follows:

Long Position

Name of Director	Capacity	Number of Domestic shares held	Approximate percentage of the issued share capital of the Company
		(Note 1)	
Tan Xuguang	Beneficial owner	4,300,000	1.3%
Xu Xinyu	Beneficial owner	1,000,000	0.3%
Sun Shaojun	Beneficial owner	1,000,000	0.3%
Zhang Quan	Beneficial owner	1,000,000	0.3%
Yeung Sai Hong (Note 2)	Held by controlled corporation	23,500,000	7.1%
Li San Yim (Note 3)	Held by spouse and controlled corporation	21,500,000	6.5%
Julius G. Kiss (Note 4)	Held by controlled corporation	10,750,000	3.3%

Name of Supervisor

Wang Yong	Beneficial owner	350,000	0.1%
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Notes:

- These are all promoter shares of the Company.
- Yeung Sai Hong was directly and indirectly interested in the entire issued share capital of Peterson, which in turn held 23,500,000 promoter shares of the Company.
- Li San Yim and his spouse, Ni Yinying, were interested in 69.16% and 30.84%, respectively in the registered capital of 福建龍岩工程機械(集團)有限公司 (Fujian Longgong), which in turn held 21,500,000 promoter shares of the Company, and therefore Li San Yim was deemed to be interested in these shares of the Company.
- Julius G. Kiss was indirectly interested in the entire issued share capital of IVM, which in turn held 10,750,000 promoter shares of the Company.



Directors' Report

Save as disclosed above, none of the Directors, Supervisors, the chief executive of the Company nor their associates had any interests or short positions in any shares, underlying shares or debentures of the Company or any of its associated corporations as at 31st December, 2004.

CONNECTED TRANSACTIONS AND DIRECTORS' INTERESTS IN CONTRACTS

Details of the continuing connected transactions for the Period are set out in note 25 (a) to the financial statements.

The Independent Non-Executive Directors have confirmed that the transactions have been entered into by the Company: (a) in the ordinary and usual course of its business, (b) either (i) on normal commercial terms or better, or (ii) on terms no less favourable to the Company than those available to or from (as appropriate) independent third parties; and (c) in accordance with the terms of the agreements governing such transactions that are fair and reasonable and in the interests of the shareholders of the Company as a whole. The Independent Non-executive Directors have further confirmed that the aggregate value of each category of the continuing connected transactions did not exceed their respective cap amounts, being the maximum RMB amounts of such transactions that can be transacted between the Company and the relevant connected persons, the details of which are set out in the circular of the Company dated 27th October, 2004.

Save as disclosed in note 25(a), no contracts of significance to which the Company was a party and in which a Director or a Supervisor of the Company had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the Period (but after the Listing).

In addition, there was no contract of significance between the Company and its controlling shareholders (or its subsidiaries) (if any) and there was no contract of significance for the provision of services to the Company by its controlling shareholders (or its subsidiaries) (if any) subsisting during the Period (but after the Listing).

No contract concerning the management and administration of the whole or any substantial part of the business of the Company was entered into or existed (after the Listing) during the Period.

REGISTER OF MEMBERS

The Register of Members of the Company will be closed from 27th April, 2005 to 27th May, 2005 (both days inclusive) during which no transfer of shares will be registered. In order to qualify for attendance and voting at the Annual General Meeting, all documents on transfer of H Shares of the Company, accompanied by the relevant share certificates, must be lodged with the Company's Hong Kong H-Share Registrar and Transfer Office, Computershare Hong Kong Investor Services Limited at 46/F., Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong, not later than 4:00 p.m. on 26th April, 2005.

Directors' Report

ANNUAL GENERAL MEETING

At the Annual General Meeting to be convened on 27th May, 2005, in addition to transacting the ordinary business to be considered at annual general meeting and considering the declaration of the final dividend, ordinary resolutions will be propose to consider the re-appointment of the Independent Non-executive Directors and the grant of a mandate to the Board to declare and pay interim dividends for the financial year ending 31st December, 2005, and special resolutions will be proposed to authorise a standing resolution regarding the nomination procedure for appointment of Director for the purposes of, but subject to, Article 94 of the Articles of Association and the grant of a general mandate to the Board to issue shares, respectively.

ARRANGEMENT TO PURCHASE SHARES OR DEBENTURES

At no time during the Period was the Company a party to any arrangements to enable the Directors of the Company to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate.

PURCHASE, SALE OR REDEMPTION OF SECURITIES

Other than pursuant to the IPO, there was no purchase, sale or redemption of any of the Company's securities by the Company during the Period.

PRE-EMPTIVE RIGHTS

There are no provision for pre-emptive rights under the Company's Articles of Association, or the laws of the PRC, which would oblige the Company to offer new shares on a pro-rata basis to existing shareholders.

AUDIT COMMITTEE

The audit committee of the Company (the "Audit Committee") is composed only of its Independent non-executive Directors, namely Mr. Koo Fook Sun, Louis (Chairman), Mr. Zhang Xiaoyu and Mr. Fang Zhong Chang. The principal duties of the Audit Committee are to review, together with management and the Company's internal and external auditors, the internal and external findings, the accounting principles and practices adopted by the Company and auditing, internal control, risk management and financial reporting matters. The international auditors of the Company, Messrs. Deloitte Touche Tohmatsu have audited the financial statements for the Period and have issued an unqualified auditors' report. In accordance with the requirements of paragraph 39 of Appendix 16 of the Listing Rules, the Audit Committee has reviewed the financial statements for the Period prior to recommending them to the Board for approval.



Directors' Report

COMPLIANCE WITH THE CODE OF BEST PRACTICE AND MODEL CODE

None of the Directors is aware of any information which would reasonably indicate that the Company is not, or was not for any part of the period commencing on the date of the listing of the Company's H Shares on the Stock Exchange and ending on 31st December, 2004, in compliance with the Code of the Best Practice as set out in Appendix 14 of the Listing Rules.

From the date of the listing of the Company's H Shares on the Stock Exchange and ending on 31st December, 2004, the Company had adopted a code of conduct regarding securities transactions by Directors on terms no less exacting than the required standard set out in the Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 of the Listing Rules (the "**Model Code**"), and that having made specific enquiry of all Directors, the Directors have confirmed that had any circumstance anticipated by the Model Code and was applicable to them occurred during the Period (but after Listing), they would have complied with the required standard set out in the Model Code.

POST BALANCE SHEET EVENT

Details of post balance sheet event is set out in note 26 to the financial statements.

SUFFICIENCY OF PUBLIC FLOAT

The Company has maintained a sufficient public float from 11th March, 2004 (the commencement date of Listing the H shares of the Company on the Main Board of the Stock Exchange) to 31st December, 2004.

AUDITORS

A resolution will be submitted to the Annual General Meeting to re-appoint Messrs. Deloitte Touche Tohmatsu as auditors of the Company.

APPROVAL OF THE FINANCIAL STATEMENTS

The audited financial statements for the Period were approved by the Board on 6th April, 2005.

On behalf of the Board
Tan Xuguang
Chairman

Hong Kong, 6th April, 2005

Report of Supervisory Committee

Dear Shareholders,

During the year ended 31st December, 2004 (the "Period"), the members of the Supervisory Committee (the "Committee") of Weichai Power Co., Ltd. (the "Company") has executed the function of monitoring to ensure that the Company adhered strictly to the stipulations of the Company Law of the PRC, the Listing Rules of the Stock Exchange of Hong Kong, the Articles of Association of the Company and other relevant statutory requirements, to safeguard the interests of the shareholders and the Company.

1. COMPANY OPERATION UNDER LAWS

The Committee attended meetings of shareholders, Board of Directors and Audit Committee to effectively monitor that the policies and decisions made by the Board and senior management were in compliance with the Listing Rules, relevant legislations and regulatory requirements of the PRC, the Articles of Association of the Company, and in the interests of the Company and shareholders. The Committee confirms that the Board and senior management of the Company adopted prudent development policies during the Period, which resulted in a continuous growth in profits and provided satisfactory returns to shareholders. The Committee is satisfied that the Directors and senior management of the Company were committed to act honestly and to perform their duties diligently, so as to protect the best interests of the Company and shareholders. The Committee is of the opinion that the Directors and senior management of the Company had observed the stipulations of the various laws and regulations as well as Articles of Association of the Company and had operated in conformity with all relevant requirements without any violation or misconduct. The Committee confirms that the report of the Board of Directors for the Period reflected the actual operational circumstances of the Company.

2. REVIEW OF FINANCIAL STATEMENTS

In 2004, the Committee has carefully reviewed the financial statements prepared in accordance with HKGAAP as well as the Accounting Standards for Business Enterprises and the Accounting Systems for Business Enterprises of the PRC and considers that the financial statements reflect a true and fair view of the financial position and results of operations of the Company and they comply with the regulations applicable to the Company.

In the opinion of the Committee, the Company has achieved satisfactory results during the Period and the Committee has confidence in the Company's future prospects and development.

The Committee will go on performing the duties of monitoring in accordance with relative regulations and the Articles of Association of the Company in an effective method to meet the shareholders' expectation.

By Order of the Supervisory Committee
Sun Chengping
Chairman

Weifang, Shandong province

6th April, 2005



Corporate Governance Report

Weichai Power Co., Ltd. (the “Company”) has long considered that corporate governance is, above all, a question of culture — a conscious decision to do the right thing as a company.

Our cultural imperative stems from:

- a clear and long-standing decision by the Board and management to adopt and promote good ethical behaviour;
- the obligations that come from being a public company with responsibilities to the communities we serve and the public scrutiny that this involves; and
- an awareness that the long-term interests of the Company are best served by maintaining a strong commitment to honest and open business practices.

Making good this cultural commitment requires the Company to:

- conduct our businesses in an honest and responsible manner;
- establish and implement the mechanisms necessary to measure and enforce compliance with ethical standards; and
- recognise that corporate governance is not just a question of technical and regulatory compliance, but involves management of the key relationships between the Company and stakeholders interested in the proper conduct of the Company’s affairs.

In this section of the Annual Report, we focus on the roles of the key players within the following corporate governance framework.



Shareholders

The Board and senior management recognise their responsibility to represent the interests of all shareholders and to maximise shareholders value.

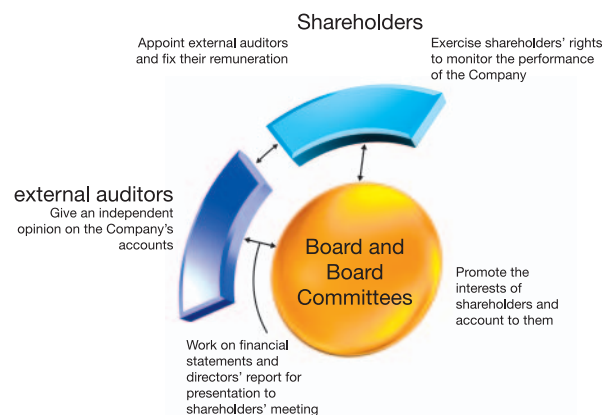
Corporate Governance Report

The Company is incorporated in the PRC and listed its H-Shares in Hong Kong. We believe that it is appropriate to have chosen to be subject to the company law of the jurisdiction in which our business is based, our shares are listed.

The Company uses a number of formal channels to account to shareholders for the performance and operations of the Company, particularly our annual and interim reports and quarterly summary statements of production and sales volume of products. In addition, the Annual General Meeting (“AGM”) and Extraordinary General Meeting (“EGM”) provides an opportunity for communication between the Board and the Company’s shareholders. The Company regards the AGM and EGM as important events in the corporate year and all Directors, Supervisors and senior management make a special effort to attend. The chairman of the Audit Committee will usually attend the AGM and EGM and answer questions (if any).

It is our policy to involve shareholders in the Company’s affairs and to communicate with them face-to-face at the AGM and EGM and during visits to the Company about our activities and prospects. Shareholders are able to vote, by way of separate resolutions, on each substantive issue at the AGM and EGM. Voting results are made available at the meeting. In addition, the Company Securities Department responds to letters and telephone enquiries from shareholders throughout the Period. Shareholders can also contact the Company through our shareholders’ hotline (86-536-229 7777) and e-mail (zbyy@weichai.com).

Shareholders’ relationship with the Board and external auditors



The Board of Directors

The Board is accountable to the shareholders for leading the Company in a responsible and effective manner. The Directors are aware of their collective and individual responsibilities to the shareholders for the manner in which the affairs of the Company are managed and operated. Each Director must act in good faith in the best interests of the Company. The Board establishes the strategic direction of the Company, sets objectives for management



Corporate Governance Report

and monitors its performance. The Board also oversees the management of the Company's relationships with customers, suppliers and others who have a significant interest in the responsible conduct of the Company's business.

The Board has established procedures to determine which issues require a decision of the Board and which can be delegated to Board Committees or management. Matters reserved to the Board for decision include any matters involving a conflict of interest for a substantial shareholder or a Director, material acquisitions and disposals of assets, significant investments including large capital projects, delegation of authority, treasury and risk management policies and key human resources issues.

Directors are requested to declare their direct or indirect interests, if any, in any proposals or transactions to be considered by the Board at board meetings and withdraw from the meetings as appropriate.

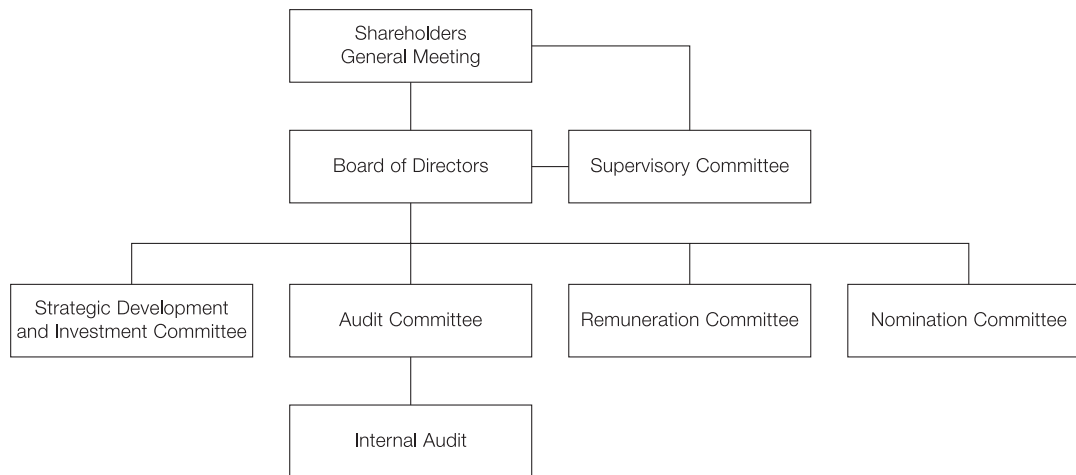
The Board has 15 directors, whose details are given on page 17 to page 19 of this Annual Report. The Board includes four Executive Directors and eight Non-executive Directors and three Independent Non-executive Directors to whom shareholder concerns can be conveyed. Directors are elected or replaced at the General Meeting, where the election is conducted by way of cumulative voting. The office of Independent Non-Executive Directors shall be undertaken by appointees not related to the Company's management and substantial shareholders in any aspect. The roles of the Chairman and the General Managers are distinctively separated and the positions are undertaken by different persons. The Chairman is responsible for overseeing the operation of the Board and monitoring the implementation of the Board's resolutions, whilst the General Managers are responsible for managing and overseeing the Company's business operating, technology, marketing strategies and manufacturing laid down by the Board and making day-to-day operating decisions with the support and assistance of the Board and senior management of the Company.

The Board currently has three Independent Non-executive Directors, representing 1/5 of the total number of Directors. They all participated in the Board in a highly conscientious and responsible manner. They have played an important check-and-balance role to safeguard the interests of the Company and the shareholders as a whole by ensuring that the Company's financial or other matters is properly conducted and reporting on in respect of significant matters and connected transactions of the Company.

The Company held 10 board meetings in 2004 for discussion and approval of important items such as initial public offering, 2004 interim results and annual results, dividends and investment projects etc. There was an 100% attendance rate (including attendance by appointing another Director as his representative to attend and vote at the meeting on his behalf was treated as having attended the meeting in person) for all Board meetings in 2004, details of which are set out on page 41 of this report.

Corporate Governance Report

Matters pertaining to Directors and Supervisors' remuneration are determined at the General Meeting. Details of directors and supervisors' remuneration are set out in note 8 to the financial statements.



Audit Committee

The Audit Committee was established on 20th October, 2003. It comprises all the Independent Non-executive Directors, they are Mr. Koo Fook Sun, Louis, Mr. Zhang Xiaoyu and Mr. Fang Zhong Chang, with Mr. Koo Fook Sun, Louis, acts as the Chairman of the Audit Committee, having appropriate professional qualifications and experience in financial matters. The terms of reference of the Committee are aligned with the recommendations set out in "A Guide for Effective Audit Committees" issued by the Hong Kong Institute of Certified Public Accountants. The Audit Committee's main duties include those to:

- review the completeness, accuracy and fairness of half-yearly and annual financial statements;
- retain, dismiss and replace the Company's external auditors, subject to endorsement by the Board and final approval and authorisation by the shareholders of the Company in General Meeting;
- review the work of the Company's external auditors and the relevant fees and terms;
- review results of audits performed by the Company's external auditors and appropriate action required on significant control weaknesses;
- meet with the Company's external auditors, whenever they consider it necessary; and
- review the system of internal controls in use by the Company.

The Audit Committee held 2 meetings during 2004, presided over by Mr. Koo Fook Sun, Louis. Details of the attendance are set out on page 41 of this report.



Corporate Governance Report

Major jobs accomplished by the Audit Committee during the Period as follows;

- Review the annual, interim financial statements of the Company, as well as management recommendations furnished by the external auditors and responses from the Company's management;
- Review the accounting policies and practices adopted by the Company and related matters;
- Review the revised caps for existing connected transactions and recommended to independent shareholders to vote in favour of the ordinary resolutions at the EGM to approve the new caps for the non-exempt continuing connected transactions.
- Recommending the setting up a supervisory committee to ensure that all connected transactions of the Company are fair, impartial and transparency, offering full protection to the interests of minority shareholders.
- Assisting the Board to monitor the Company's internal audit.

Throughout the year under review, the Audit Committee discharged its responsibilities, reviewed and discussed the financial results and internal control system of the Company.

Strategic Development and Investment Committee

Established in April 2005, the Strategic Development and Investment Committee (the "Committee") is principally responsible for examining and reviewing the Company's strategic plans, monitoring the implementation of strategic planning, and facilitating timely adjustments to the Company's strategies and governance structure.

The Committee currently comprises Mr. Tan Xuguang (Chairman of the Board and the Committee), Mr. Sun Shao Jun, Mr. Tong Jingen, Mr. Chen Xue Jian, Mr. Zhang Quan, Mr. Li San Yim and Mr. Zhang Xiaoyu.

Remuneration Committee

The Company founded the Remuneration Committee (the "Committee") in April 2005. The Committee is responsible for recommendation to the Board on the remuneration packages and terms of employment for Directors, Supervisors and senior management. The Committee also determines relevant remuneration policy for Directors, Supervisors and senior management and their participation in incentive schemes operated by the Company.

The Committee currently comprises all the Independent Non-executive Directors and two Non-executive Directors, they are Mr. Koo Fook Sun, Louis (Chairman), Mr. Zhang Xiaoyu, Mr. Fang Zhong Chang, Ms. Zhang Fusheng and Mr. Yao Yu.

Corporate Governance Report

Nomination Committee

The Nomination Committee was founded in April 2005. It comprises all the Independent Non-executive Directors and two Executive Directors, they are Mr. Fang Zhong Chang, (Chairman), Mr. Koo Fook Sun, Louis, Mr. Zhang Xiaoyu, Mr. Xu Xinyu and Mr. Zhang Quan. The meeting of the Nomination Committee will be arranged and held on an as-needed basis. The Nomination Committee will identify qualified candidates to fill the Board membership whenever such vacancy arises, it will nominate such candidates for the Board to consider, and regularly review the composition of the Board as well as make suggestions as to any change that may be required.

Attendance at meetings of the Board/Supervisory Committee and specialised committees (attendance in person/number of meetings) during the Period is as follows:

Name	Board/ Supervisory Committee	Audit Committee
Directors		
Tan Xuguang	10/10	
Xu Xinyu	10/10	
Zhang Quan	10/10	
Sun Shaojun	10/10	
Yeung Sai Hong	10/10	
Chen Xue Jian	6/10	
Yao Yu	10/10	
Liu Zheng	4/10	
Li San Yim	10/10	
Tong Jingen	10/10	
Zhang Fusheng	10/10	
Feng Gang	10/10	
Julius G. Kiss	10/10	
Independent Non-executive Directors		
Koo Fook Sun, Louis (<i>Chairman</i>)	10/10	2/2
Zhang Xiaoyu	10/10	2/2
Fang Zhong Chang	1/1	1/1
Supervisors		
Sun Chengping (<i>Chairman</i>)	2/2	
Wang Yong	2/2	
Jiang Jianfang	2/2	

Any Director who was unable to attend any meeting in person had appointed another Director as his representative to attend and vote at the meeting on his behalf and was treated as having attended the meeting in person.



Corporate Governance Report

Control Mechanisms

Supervisory Committee

The Supervisory Committee exercises independently the power of supervision upon the Company in accordance with the law to protect the lawful rights of the shareholders, the Company and its staff against any infringement. The size and composition of the Company's Supervisory Committee are in compliance with the requirements of the relevant laws and regulations. The Supervisory Committee held 2 meetings during Period to carry out supervision on behalf of the shareholders in respect of the Company's financial matters and the lawfulness and compliance on the discharge of duties by the Directors and senior management. The Supervisory Committee members attended all Board meetings and diligently performed its supervisory duties. Details of attendance of the Supervisory Committee meetings are set out on the above table of this page.

Internal Control and Audit

Internal control systems have been designated to allow the Board to monitor the Company's overall financial position, to protect its assets and to assure against material financial misstatement or loss. The Company Internal Audit Department plays a major role in monitoring the internal governance of the Company. Key tasks of the department include:

- unrestricted access to and review of all aspects of the Company's activities and internal controls;
- comprehensive audits of the practices, procedures and internal controls of all business and support units and subsidiaries on a regular basis;
- liaison with external auditors on the quality and effectiveness of internal controls, systems and procedures;
- investigation of business ethics, conflicts of interest and other Company policy violations; and
- special reviews of areas of concern identified by management.

Open Communication

The Company has a policy of open communication and fair disclosure. Disclosure is a key means to enhance our corporate governance standards, in that it provides our shareholders with the information necessary for them to form their own judgment and to provide feedback to us. However, we understand that more disclosure does not necessarily result in increased transparency. The integrity of the information provided is essential for building market confidence.

Corporate Governance Report

Financial Reporting

The Company aims to present a clear and balanced assessment of its financial position and prospects. The Directors ensure that accounts are prepared so as to give a true and fair view of the financial status of the Company. Financial results are announced as early as possible, and audited accounts are published within four months after the end of the financial year. Quarterly summary statements of production and sales volume of products are published on the company's own website: www.weichai.com at the early date of next quarter to keep shareholders informed of the performance and operations of the Company.

We are not able to measure the extent to which corporate governance directly creates shareholder value. However, we have no doubt that a commitment to strictly adhere to the major principles of good corporate governance practices will help sustain the support of the stakeholders on whose goodwill we rely for our long-term survival and prosperity.



Notice of Annual General Meeting

NOTICE IS HEREBY GIVEN that the annual general meeting (the “**Annual General Meeting**”) of Weichai Power Co., Ltd. (the “**Company**”) for the year ended 31st December, 2004 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 27th May, 2005 at 10:00 a.m. for the purposes of considering, approving (or receiving) and authorising the following matters:

AS ORDINARY RESOLUTIONS:

1. To consider and approve the Report of the Board of Directors of the Company for the year ended 31st December, 2004.
2. To consider and approve the Report of the Supervisory Committee of the Company for the year ended 31st December, 2004.
3. To consider and receive the audited financial statements of the Company and the Auditors’ Report for the year ended 31st December, 2004.
4. To consider and approve the re-appointment of 山東正源和信有限責任會計師事務所 (Shandong Zheng Yuan Hexin Accountants Limited) as the PRC auditors of the Company and to authorize Directors to determine their remuneration (and, for the purpose of this resolution, “PRC” means the People’s Republic of China, but excluding Hong Kong).
5. To consider and approve the re-appointment of Messrs. Deloitte Touche Tohmatsu as the non-PRC auditors of the Company and to authorize Directors to determine their remuneration (and, for the purpose of this resolution, “PRC” means the People’s Republic of China, but excluding Hong Kong).
6. To consider and approve the profit distribution of the Company for the year ended 31st December, 2004 (including the payment of final dividend).
7. To consider and approve the re-appointment of 張小虞 (Zhang Xiaoyu) as an independent non-executive Director of the Company with effect as from the close of this Annual General Meeting up to the earlier of (i) the conclusion of the next annual general meeting of the Company (“Next AGM”); and (ii) the conclusion of the extraordinary general meeting (if any) of the Company convened prior to the Next AGM and at which 張小虞 (Zhang Xiaoyu) is re-appointed as an independent non-executive Director of the Company for a term beyond the conclusion of the Next AGM, and determine his remuneration.
8. To consider and approve the re-appointment of 顧福身 (Koo Fook Sun, Louis) as an independent non-executive Director of the Company with effect as from the close of this Annual General Meeting up to the earlier of (i) the conclusion of the next annual general meeting of the Company (“Next AGM”); and (ii) the conclusion of the extraordinary general meeting (if any) of the Company convened prior to the Next AGM and at which 顧福身 (Koo Fook Sun, Louis) is re-appointed as an independent non-executive Director of the Company for a term beyond the conclusion of the Next AGM, and determine his remuneration.

Notice of Annual General Meeting

9. To consider and approve the re-appointment of 房忠昌 (Fang Zhong Chang) as an independent non-executive Director of the Company with effect as from the close of this Annual General Meeting up to the earlier of (i) the conclusion of the next annual general meeting of the Company ("Next AGM"); and (ii) the conclusion of the extraordinary general meeting (if any) of the Company convened prior to the Next AGM and at which 房忠昌 (Fang Zhong Chang) is re-appointed as an independent non-executive Director of the Company for a term beyond the conclusion of the Next AGM, and determine his remuneration.
10. To consider and approve the granting of a mandate to the Board of Directors for payment of interim dividend (if any) to the shareholders of the Company for the year ending 31st December, 2005.

AS SPECIAL RESOLUTIONS:

11. As special business and as a standing resolution to pass the following resolution as a special resolution:

"THAT any proposal to appoint any person to the office of Director 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; and the period for lodgement of such notices shall commence on (and include) the day after the date of despatch of the notice convening the relevant general meeting of the Company appointed to consider such proposal and end on (and exclude) the date that is seven (7) days before the date of the said general meeting."

12. As special business, to consider and, if thought fit, pass the following resolution relating to the granting of a general mandate to the Board of Directors to issue, amongst other things, new shares as a special resolution:

"THAT:

- (1) The Directors be and is hereby authorized to make such amendments to the Articles of Association of the Company as it thinks fit so as to increase the registered capital of the Company and reflect the new capital structure of the Company upon the allotment and issuance of shares of the Company as contemplated in paragraph (2) of this special resolution.
- (2) The Board of Directors be and is hereby granted, during the Relevant Period, an unconditional general mandate to separately or concurrently issue, allot and deal with additional domestic shares and/or overseas listed foreign shares of the Company, and to make or grant offers, agreements and options in respect thereof, subject to the following conditions:
 - (i) such mandate shall not extend beyond the Relevant Period save that the Board of Directors may during the Relevant Period make or grant offers, agreements or options which may require the exercise of such powers after the end of the Relevant Period; and



Notice of Annual General Meeting

(ii) the aggregate nominal amount of the domestic shares or overseas listed foreign shares allotted and issued or agreed conditionally or unconditionally to be allotted and issued (whether pursuant to an option or otherwise) by the Board of Directors otherwise than pursuant to a Rights Issue or any option scheme or similar arrangement, shall not exceed 20% of the aggregate nominal amount of the domestic shares and overseas listed foreign shares, respectively, of the Company in issue as at the date of this special resolution; and the Board of Directors will only exercise its power under such mandate in accordance with the Company Law of the People's Republic of China ("PRC") and the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (as amended from time to time) and only if all necessary approvals from the China Securities Regulatory Commission and/or other relevant PRC government authorities are obtained.

(3) For the purposes of this special resolution:

"Relevant Period" means the Period from the passing of this special resolution until the earliest of: (i) the conclusion of the next annual general meeting of the Company following the passing of this special resolution; or (ii) the expiration of the 12-month period following the passing of this special resolution; or (iii) the date on which the authority sets out in this special resolution is revoked or varied by a special resolution of the shareholders of the Company in a general meeting; and

"Rights Issue" means the allotment or issue of shares in the Company or other securities which would or might require shares to be allotted and issued pursuant to an offer made to all the shareholders of the Company (excluding for such purpose any shareholder who is resident in a place where such offer is not permitted under the law or regulation of that place) and, where appropriate, the holder of other equity securities of the Company entitled to such offer, pro rata (apart from fractional entitlements) to their existing holdings of shares or such other equity securities.

Notice of Annual General Meeting

- (4) Contingent on the Board of Directors resolving to issue shares pursuant to paragraph (2) of this special resolution, the Board of Directors be and is hereby authorized to approve, execute and do or procure to be executed and done, all such documents, deeds, and things as it may consider necessary in connection with the issue of such new shares (including, without limitation, determining the time and place of issue, making all necessary applications to the relevant authorities, entering into underwriting agreements (or any other agreements), determining the use of proceeds and making all necessary filings and registrations with the relevant PRC, Hong Kong and other relevant authorities, including but not limited to registering the increased registered capital of the Company with the relevant authorities in the PRC as a result of the issuance of shares pursuant to paragraph (2) of this special resolution”.

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

Hong Kong, 6th April, 2005

Notes:

- (A) The Company will not process registration of transfers of H Shares of the Company from 27th April, 2005 to 27th May, 2005 (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 26th April, 2005 are entitled to attend and vote at the Annual General Meeting following completion of the registration procedures.

To qualify for attendance and voting at the Annual General Meeting, documents on transfers of H Shares of the Company, 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 26th April, 2005. 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, domestic shares and foreign shares of the Company intending to attend the Annual General Meeting should complete and return the reply slip for attending the Annual General Meeting personally, by facsimile or by post to the Secretary to the Board of the Company 20 days before the Annual General Meeting, (i.e. on or before 7th May, 2005).



Notice of Annual General Meeting

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 Annual General Meeting may, by completing the form of proxy of the Company, appoint one or more proxies to attend and vote at the Annual General Meeting 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 authorization (if any) must be notarised. If a corporate shareholder appoints a person other than its legal representative to attend the Annual General Meeting 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 notarized power of attorney (if any) and other relevant documents of authorization (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 Annual General Meeting.
- (F) Each holder of domestic shares or foreign shares (excluding H Shares) of the Company who is entitled to attend and vote at the Annual General Meeting may also, by completing the form of proxy of the Company, appoint one or more proxies to attend and vote at the Annual General Meeting on his behalf. A proxy need not be a shareholder of the Company. Notes (C) and (D) above also apply to the holders of domestic shares and foreign shares (excluding H 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 authorization (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 Annual General Meeting. The address of the Secretary to the Board of the Company is stated in Note (B) above.

Notice of Annual General Meeting

- (G) A shareholder or his proxy should produce proof of identity when attending the Annual General Meeting. 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 Annual General Meeting, 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 authorization of that legal representative or other person.
- (H) Any proposal to appoint any person to the office of director of the Company at the Annual General Meeting shall be given in writing and, notice in written 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 Annual General Meeting and end on (and exclude) the date that is seven (7) days before the date of the Annual General Meeting.
- (I) The Annual General Meeting is expected to last for half a day. Shareholders who attend the Annual General Meeting shall bear their own travelling and accommodation expenses.



WEICHAI POWER CO., LTD.

Auditors' Report

Deloitte.

德勤

TO THE SHAREHOLDERS OF WEICHAI POWER CO., LTD.
濰柴動力股份有限公司
(incorporated in the People's Republic of China with limited liability)

We have audited the financial statements on pages 51 to 75 which have been prepared in accordance with accounting principles generally accepted in Hong Kong.

Respective responsibilities of Directors and auditors

The Directors are responsible for the preparation of financial statements which give a true and fair view. In preparing financial statements which give a true and fair view it is fundamental that appropriate accounting policies are selected and applied consistently.

It is our responsibility to form an independent opinion, based on our audit, on those financial statements and to report our opinion solely to you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

Basis of opinion

We conducted our audit in accordance with Statements of Auditing Standards issued by the Hong Kong Institute of Certified Public Accountants. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgments made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the circumstances of the Company, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance as to whether the financial statements are free from material misstatement. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements. We believe that our audit provides a reasonable basis for our opinion.

Opinion

In our opinion the financial statements give a true and fair view of the state of affairs of the Company as at 31st December, 2004 and of the profit and cash flows of the Company for the year then ended and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

Deloitte Touche Tohmatsu
Certified Public Accountants
Hong Kong

6th April, 2005

Income Statement

For the year ended 31st December, 2004

	NOTES	2004 RMB'000	2003 RMB'000
Turnover	4	6,155,779	3,555,670
Cost of sales		(4,651,073)	(2,695,351)
Gross profit		1,504,706	860,319
Other operating income	5	64,937	31,250
Distribution expenses		(391,838)	(197,660)
Administrative expenses		(295,436)	(160,770)
Research and development expenses		(82,370)	(39,412)
Other operating expenses		(2,476)	(7,809)
Profit from operations	6	797,523	485,918
Finance costs	7	(53,159)	(30,425)
Profit before taxation		744,364	455,493
Income tax expense	9	(205,484)	(178,025)
Profit for the year		538,880	277,468
Dividends paid	10	72,075	20,439
Basic earnings per share	11	RMB1.75	RMB1.29

**Balance Sheet**

At 31st December, 2004

	NOTES	2004 RMB'000	2003 RMB'000
NON-CURRENT ASSETS			
Property, plant and equipment	12	974,980	375,431
Intangible assets	13	264,449	217,780
Investment securities	14	20,000	—
Deposits paid for acquisition of property, plant and equipment	15	358,155	110,783
		1,617,584	703,994
CURRENT ASSETS			
Inventories	16	429,149	279,905
Trade debtors	17	487,624	230,302
Bills receivable	21	174,288	394,208
Deposits, prepayments and other debtors		96,998	33,702
Pledged bank deposits	21	334,445	391,578
Bank balances and cash		1,774,220	338,219
		3,296,724	1,667,914
CURRENT LIABILITIES			
Trade creditors	18	1,254,742	409,784
Bills payable	21	700,804	915,307
Other creditors and accruals		300,232	95,619
Amount due to a related party	25(c)	90,525	45,427
Tax payable		189,058	105,327
Unsecured bank borrowings — due within one year	19	20,000	31,720
		2,555,361	1,603,184
NET CURRENT ASSETS		741,363	64,730
TOTAL ASSETS LESS CURRENT LIABILITIES		2,358,947	768,724

Balance Sheet

At 31st December, 2004

	<i>NOTES</i>	2004 RMB'000	2003 RMB'000
NON-CURRENT LIABILITIES			
Amount due to a related party	25(c)	202,226	174,224
Unsecured bank borrowings — due after one year	19	—	120,000
		202,226	294,224
		2,156,721	474,500
OWNERS' EQUITY			
Share capital	20	330,000	215,000
Reserves		1,826,721	259,500
		2,156,721	474,500

The financial statements on pages 51 to 75 were approved and authorised for issue by the Board of Directors on 6th April, 2005 and are signed on its behalf by:

Mr. Tan Xuguang
Executive Director

Mr. Xu Xinyu
Executive Director



Statement of Changes in Equity

For the year ended 31st December, 2004

	Share capital RMB'000	Share premium RMB'000	Statutory surplus reserve RMB'000	Statutory welfare reserve RMB'000	Accumulated profits RMB'000	Total RMB'000
At 1st January, 2003	215,000	—	247	124	2,100	217,471
Profit for the year	—	—	—	—	277,468	277,468
Dividend paid	—	—	—	—	(20,439)	(20,439)
Transfer	—	—	27,394	13,696	(41,090)	—
At 31st December, 2003	215,000	—	27,641	13,820	218,039	474,500
Conversion of certain state-owned domestic shares to H shares	(11,500)	—	—	—	—	(11,500)
Issue of H shares (including those converted from domestic shares)	126,500	1,166,797	—	—	—	1,293,297
Expenses incurred in connection with the issue of shares	—	(66,381)	—	—	—	(66,381)
Profit for the year	—	—	—	—	538,880	538,880
Dividends paid	—	—	—	—	(72,075)	(72,075)
Transfer	—	—	53,687	26,843	(80,530)	—
At 31st December, 2004	330,000	1,100,416	81,328	40,663	604,314	2,156,721

As stipulated by the relevant regulations of the People's Republic of China (the "PRC"), the aggregate allocations to the statutory surplus reserve and statutory welfare reserve are 10% and 5% respectively of the Company's profit after tax under the relevant accounting principles and financial regulations applicable to companies established in the PRC (the "PRC GAAP").

According to the provision of the Company's Articles of Association, the statutory surplus reserve shall only be used for making up losses, capitalisation into share capital and expansion of the Company's production and operation. The statutory welfare fund is used for the collective welfare of the Company's staff and workers.

According to the Company's Articles of Association, distribution of profit by the Company is determined with reference to the profit as reported under the PRC GAAP or the accounting principles generally accepted in Hong Kong, whichever is less.

At 31st December, 2004, the distributable reserves of the Company was RMB598,772,000 (2003: RMB191,933,000).

Cash Flow Statement

For the year ended 31st December, 2004

	2004 RMB'000	2003 RMB'000
OPERATING ACTIVITIES		
Profit from operations	797,523	485,918
Adjustments for:		
Depreciation and amortisation of property, plant and equipment	54,534	31,105
Amortisation of intangible assets	72,595	5,185
Loss on disposal of property, plant and equipment	1,266	6,775
Allowance for bad and doubtful debts	17,244	11,566
Operating cash flows before movements in working capital	943,162	540,549
Increase in inventories	(149,244)	(49,254)
Increase in trade debtors	(274,566)	(206,164)
Decrease (increase) in bills receivable	219,920	(273,517)
Increase in deposits, prepayments and other debtors	(63,296)	(31,545)
Increase in trade creditors	844,958	80,891
(Decrease) increase in bills payable	(214,503)	915,307
Increase in other creditors and accruals	204,613	91,136
Cash generated from operations	1,511,044	1,067,403
Tax paid	(121,753)	(74,396)
Interest paid	(53,159)	(30,425)
NET CASH GENERATED FROM OPERATING ACTIVITIES	1,336,132	962,582
INVESTING ACTIVITIES		
Purchases of property, plant and equipment	(655,661)	(177,500)
Increase in deposits paid for acquisition of property, plant and equipment	(247,372)	(110,783)
Purchases of investment securities	(20,000)	—
Decrease (increase) in pledged bank deposits	57,133	(391,578)
Proceeds from disposal of property, plant and equipment	312	5,185
Amounts advanced to related parties	—	(160,229)
Amounts repaid from related parties	—	164,316
NET CASH USED IN INVESTING ACTIVITIES	(865,588)	(670,589)



Cash Flow Statement

For the year ended 31st December, 2004

	2004	2003
	RMB'000	RMB'000
FINANCING ACTIVITIES		
Dividends paid	(72,075)	(20,439)
Net proceeds from issue of shares	1,215,416	—
Amount repaid to a related party	(67,409)	(72,598)
Amount advanced from a related party	21,245	3,260
New bank borrowings raised	20,000	151,720
Repayments of bank borrowings	(151,720)	(151,720)
NET CASH GENERATED FROM (USED IN) FINANCING ACTIVITIES	965,457	(89,777)
NET INCREASE IN CASH AND CASH EQUIVALENTS	1,436,001	202,216
CASH AND CASH EQUIVALENTS AT 1ST JANUARY	338,219	136,003
CASH AND CASH EQUIVALENTS AT 31ST DECEMBER, REPRESENTED BY BANK BALANCES AND CASH	1,774,220	338,219

Notes to the Financial Statements

For the year ended 31st December, 2004

1. GENERAL

The Company was incorporated on 23rd December, 2002 as a joint stock limited company with limited liability in the People's Republic of China (the "PRC").

The principal activities of the Company are the manufacture and sale of diesel engines.

The H shares of the Company were listed on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") with effect from 11th March, 2004.

2. POTENTIAL IMPACT ARISING FROM THE RECENTLY ISSUED ACCOUNTING STANDARDS

In 2004, the Hong Kong Institute of Certified Public Accountants issued a number of new or revised Hong Kong Accounting Standards and Hong Kong Financial Reporting Standards (herein collectively referred to as "new HKFRS(s)") which are effective for accounting periods beginning on or after 1st January, 2005. The Company has not early adopted these new HKFRSs in the financial statements for the year ended 31st December, 2004.

The Company has commenced considering the potential impact of the new HKFRSs but is not yet in a position to determine whether these new HKFRSs would have a significant impact on how its results of operations and financial position are prepared and presented. These new HKFRSs may result in changes in the future as to how the results and financial position are prepared and presented.

3. SIGNIFICANT ACCOUNTING POLICIES

The financial statements have been prepared under the historical cost convention.

The financial statements have been prepared in accordance with accounting principles generally accepted in Hong Kong. The principal accounting policies adopted are set out below:

Revenue recognition

Sales of goods are recognised when goods are delivered and title has passed.

Repair services income are recognised when services are provided.

Interest income is accrued on a time basis, by reference to the principal outstanding and at the interest rate applicable.



Notes to the Financial Statements

For the year ended 31st December, 2004

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Property, plant and equipment

Property, plant and equipment are stated at cost less depreciation and amortisation and accumulated impairment losses.

Construction in progress for production or administrative purposes is carried at cost, less any identified impairment loss. Depreciation of these assets, on the same basis as other assets, commences when the assets are ready for their intended use.

Land use right is amortised over the period of the right using the straight-line method.

Depreciation and amortisation is provided to write off the cost of property, plant and equipment over their estimated useful lives and after taking into account their estimated residual values, using the straight-line method, at the following rates per annum:

Buildings	20 years
Plant and machinery	5 to 10 years
Computer, equipment and fixtures	5 years
Motor vehicles	5 years

The gain or loss arising from disposal or retirement of an asset is determined as the difference between the sale proceeds and the carrying amount of the asset and is recognised in the income statement.

Research and development expenditure

Expenditure on research activities is recognised as an expense in the period in which it is incurred.

An internally-generated intangible asset arising from development expenditure is recognised only if it is anticipated that the development cost incurred on a clearly-defined project will be recovered through future commercial activity. The resultant asset is amortised on a straight-line basis over its useful life.

Where no internally-generated intangible asset can be recognised, development expenditure is recognised as an expense in the period in which it is incurred.

Intangible assets

Intangible assets are measured initially at purchase cost and are amortised on a straight-line basis over their estimated useful lives.

Notes to the Financial Statements

For the year ended 31st December, 2004

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Impairment

At each balance sheet date, the Company reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. An impairment loss is recognised as an expense immediately.

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior years. A reversal of an impairment loss is recognised as income immediately.

Investment securities

Investment securities, which are securities held for an identified long-term strategic purpose, are measured at subsequent reporting dates at cost, as reduced by any impairment loss that is other than temporary.

Foreign currencies

Transactions in currencies other than Renminbi are initially recorded at the rates of exchange prevailing on the dates of the transactions. Monetary assets and liabilities denominated in other currencies are re-translated at the rates prevailing on the balance sheet date. Profits and losses arising on exchange are dealt with in the income statement.

Taxation

Income tax expense represents the sum of the tax currently payable and deferred tax.

The tax currently payable is based on taxable profit for the year. Taxable profit differs from net profit as reported in the income statement because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible.

Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences, and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from the initial recognition of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the asset to be recovered.

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realised. Deferred tax is charged or credited in the income statement, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity.



Notes to the Financial Statements

For the year ended 31st December, 2004

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is calculated using the weighted average cost method.

Operating leases

Rental expenses under operating leases are charged to the income statement on a straight-line basis over the relevant lease terms.

Retirement benefit costs

Payments to the defined contribution retirement benefit plans are charged as expenses as they fall due.

Payments made to state-managed retirement benefit schemes are dealt with as payments to defined contribution plans where the Company's obligations under the schemes are equivalent to those arising in a defined contribution retirement benefit plan.

4. BUSINESS AND GEOGRAPHICAL SEGMENTS

Turnover represents the amounts received and receivable for goods sold by the Company during the year.

The Company was solely engaged in the business of manufacture and sale of diesel engines and substantially all of the Company's turnover and operating results were derived from the PRC and accordingly, no analysis of business and geographical segment is presented.

Notes to the Financial Statements

For the year ended 31st December, 2004

5. OTHER OPERATING INCOME

	2004 RMB'000	2003 RMB'000
Other operating income includes:		
Gain on sale of scrap and other materials	29,549	19,713
Amounts waived by trade creditors	2,085	3,931
Sales and warranty period repair services fee income	13,454	2,462
Bank interest income	18,592	2,343
Others	1,257	2,801
	64,937	31,250

6. PROFIT FROM OPERATIONS

	2004 RMB'000	2003 RMB'000
Profit from operations has been arrived at after charging:		
Depreciation and amortisation of property, plant and equipment	54,534	31,105
Amortisation of intangible assets (included in distribution expenses and administrative expenses)	72,595	5,185
Auditors' remuneration	3,000	863
Allowance for bad and doubtful debts	17,244	11,566
Directors' and Supervisors' emoluments (note 8)	5,438	1,964
Staff costs excluding Directors' and Supervisors' emoluments	241,373	132,512
Retirement benefits scheme contributions excluding amounts included in Directors' and Supervisors' emoluments	25,232	22,586
Loss on disposal of property, plant and equipment	1,266	6,775
Cost of inventories recognised as expense	4,053,836	2,368,372

Staff costs disclosed above do not include an amount of approximately RMB13,832,000 (2003: RMB7,888,000) relating to research and development activities, which is included under research and development expenses.

7. FINANCE COSTS

The finance costs for both years represent interest expenses on bank borrowings wholly repayable within five years.



Notes to the Financial Statements

For the year ended 31st December, 2004

8. DIRECTORS', SUPERVISORS' AND EMPLOYEES' EMOLUMENTS

(a) Directors' and Supervisors' emoluments

	2004 RMB'000	2003 RMB'000
Directors' and Supervisors' fees	—	—
Other emoluments (Directors):		
Salaries and other allowances:		
— Executive Directors	3,590	1,130
— Non-Executive Directors	700	400
— Independent Non-Executive Directors	250	246
	4,540	1,776
Retirement benefits scheme contributions:		
— Executive Directors	226	23
— Non-Executive Directors	—	—
— Independent Non-Executive Directors	—	—
	226	23
Other emoluments (Supervisors):		
Salaries and allowances	660	160
Retirement benefits scheme contributions	12	5
	672	165
	5,438	1,964

Notes to the Financial Statements

For the year ended 31st December, 2004

8. DIRECTORS', SUPERVISORS' AND EMPLOYEES' EMOLUMENTS (Continued)

(a) Directors' and Supervisors' emoluments (Continued)

The emoluments of the directors and supervisors were within the following bands:

	2004 Number of Directors and Supervisors	2003 Number of Directors and Supervisors
Nil to HK\$500,000	15	17
HK\$500,001 to HK\$1,000,000	3	—
HK\$1,500,001 to HK\$2,000,000	1	—

(b) Employees' emoluments

Of the five individuals with the highest emoluments in the Company, four (2003: four) were Executive Directors of the Company whose emoluments are included in the disclosures in note 8(a) above. The emoluments of the remaining one (2003: one) individual was as follows:

	2004 RMB'000	2003 RMB'000
Salaries and allowances	1,525	260
Retirement benefits scheme contributions	3	6
	1,528	266

No emoluments were paid by the Company to the Directors, Supervisors or the five highest paid individuals as an inducement to join or upon joining the Company or as a compensation for loss of office. None of the Directors nor any of the Supervisors waived any emoluments for either 2003 or 2004.

9. INCOME TAX EXPENSE

	2004 RMB'000	2003 RMB'000
PRC Enterprise Income Tax:		
Current year	269,371	178,025
Overprovision in prior year	(240)	—
Tax credit	(63,647)	—
	205,484	178,025



Notes to the Financial Statements

For the year ended 31st December, 2004

9. INCOME TAX EXPENSE (Continued)

PRC Enterprise Income Tax is calculated at statutory income tax rate of 33% (2003: 33%) of the assessable profit except that the Company's Chongqing branch is taxed at a preferential rate of 15% (2003: 15%) pursuant to the relevant laws and regulations in the PRC.

During the year ended 31st December, 2004, the Company established a branch in Hong Kong which is subject to Hong Kong Profits Tax at 17.5% on its estimated assessable profit. No provision for Hong Kong Profits Tax has been made as the branch had no assessable profit for the year.

Pursuant to notices dated 24th February, 2004 and 25th February, 2005 issued by Weifang Municipal Tax Bureau, the Company is entitled to a total tax credit of approximately RMB63,647,000 in respect of eligible additions of domestic machinery and equipment for production use.

The tax charge for the year can be reconciled to the profit per the income statement as follows:

	2004	2003
	RMB'000	RMB'000
Profit before taxation	744,364	455,493
Tax at PRC Enterprise Income Tax rate of 33% (2003: 33%)	245,640	150,313
Tax effect of expenses not deductible for tax purpose	39,700	27,712
Effect of different tax rate for the Company's Chongqing branch	(15,969)	—
Overprovision in prior year	(240)	—
Tax credit	(63,647)	—
	205,484	178,025

There was no significant unprovided deferred taxation during the year or at the balance sheet date.

Notes to the Financial Statements

For the year ended 31st December, 2004

10. DIVIDENDS

	2004 RMB'000	2003 RMB'000
Final, paid — 2003: RMB0.105 (2002: Nil) per share	22,575	—
Interim, paid — 2004: RMB0.15 (2003: RMB0.095) per share	49,500	20,439
	72,075	20,439

A final dividend of RMB0.15 for the year ended 31st December, 2004 (2003: RMB0.105 per share which was declared on 18th February, 2004) per share has been proposed by the Directors and is subject to approval by the shareholders in the annual general meeting to be held on 27th May, 2005.

11. BASIC EARNINGS PER SHARE

The calculation of basic earnings per share is based on the profit for the year of approximately RMB538,880,000 (2003: RMB277,468,000) and on the weighted average number of 308,005,000 (2003: 215,000,000) ordinary shares in issue during the year.

12. PROPERTY, PLANT AND EQUIPMENT

	Construction in progress RMB'000	Land and buildings RMB'000	Plant and machinery RMB'000	Computer, equipment and fixtures RMB'000	Motor vehicles RMB'000	Total RMB'000
COST						
At 1st January, 2004	148,114	54,971	181,929	15,572	15,660	416,246
Additions	593,754	49,903	75	9,563	2,366	655,661
Transfer	(268,073)	34,182	208,548	8,889	16,454	—
Disposals	—	—	(1,661)	(388)	(49)	(2,098)
At 31st December, 2004	473,795	139,056	388,891	33,636	34,431	1,069,809
DEPRECIATION AND AMORTISATION						
At 1st January, 2004	—	4,825	29,163	3,845	2,982	40,815
Provided for the year	—	4,438	40,367	4,876	4,853	54,534
Eliminated on disposals	—	—	(387)	(117)	(16)	(520)
At 31st December, 2004	—	9,263	69,143	8,604	7,819	94,829
NET BOOK VALUE						
At 31st December, 2004	473,795	129,793	319,748	25,032	26,612	974,980
At 31st December, 2003	148,114	50,146	152,766	11,727	12,678	375,431

Notes:

- (i) All buildings are situated in the PRC.
- (ii) The land use rights are held under medium-term lease.



Notes to the Financial Statements

For the year ended 31st December, 2004

13. INTANGIBLE ASSETS

	Trademarks	Technologies	Total
	RMB'000	RMB'000	RMB'000
	<i>(Note i)</i>	<i>(Note i)</i>	
COST			
At 1st January, 2004	—	222,965	222,965
Acquired from China Heavy Duty Truck Group <i>(Note ii)</i>	119,264	—	119,264
At 31st December, 2004	119,264	222,965	342,229
AMORTISATION			
At 1st January, 2004	—	5,185	5,185
Charge for the year	10,372	62,223	72,595
At 31st December, 2004	10,372	67,408	77,780
NET BOOK VALUES			
At 31st December, 2004	108,892	155,557	264,449
At 31st December, 2003	—	217,780	217,780

Notes:

- (i) The trademarks and technologies are amortised on a straight-line basis over a period of 4.5 years to 8 years.
- (ii) China Heavy Duty Truck Group Co., Ltd. ("CHDTGL") is a substantial shareholder of the Company. CHDTGL and its affiliates other than the Company are collectively referred as China Heavy Duty Truck Group.

14. INVESTMENT SECURITIES

	2004	2003
	RMB'000	RMB'000
Unlisted equity securities	20,000	—

As at 31st December, 2004, the Company held 5.71% registered capital of 山東福田重工股份有限公司, a company established in the PRC.

Notes to the Financial Statements

For the year ended 31st December, 2004

15. DEPOSITS PAID FOR ACQUISITION OF PROPERTY, PLANT AND EQUIPMENT

As at 31st December, 2004, the amount represented the deposits paid to certain vendors for the acquisition of property, plant and equipment. Details of the related capital commitments are set out in note 22.

Included in the balance was a refundable deposit of RMB80,000,000 paid to CHDTGL in relation to a framework agreement dated 27th September, 2004 for the Company to acquire certain assets of Hangzhou Motor Engine Factory, a wholly-owned subsidiary of CHDTGL.

16. INVENTORIES

	2004	2003
	RMB'000	RMB'000
Raw materials	164,498	130,389
Work-in-progress	26,175	34,933
Finished goods	238,476	114,583
	429,149	279,905

No inventories of the Company were stated at net realisable value.



Notes to the Financial Statements

For the year ended 31st December, 2004

17. TRADE DEBTORS

The credit terms granted by the Company to its customers are generally similar and are normally in the range from 30 days to 90 days. However, customers with established trading records could be granted longer credit period. An analysis of trade debtors is as follows:

	2004	2003
	RMB'000	RMB'000
Third party customers	300,481	198,583
Related party customers	187,143	31,719
	487,624	230,302
An ageing analysis is as follows:		
Within 90 days	466,544	200,323
Between 91 to 180 days	5,320	17,936
Between 181 to 365 days	4,146	5,975
Over 365 days	11,614	6,068
	487,624	230,302

The related party customers represented China Heavy Duty Truck Group, 福建龍岩工程機械(集團)有限公司 ("Fujian Longgong") and its affiliates and 廣西柳工集團有限公司 ("Guangxi Liugong") and its affiliates. Details of the relationship with Fujian Longgong and Guangxi Liugong are set out in note 25(a).

Notes to the Financial Statements

For the year ended 31st December, 2004

18. TRADE CREDITORS

An analysis of trade creditors is as follows:

	2004	2003
	RMB'000	RMB'000
Third party suppliers	1,212,276	382,858
Related party suppliers	42,466	26,926
	1,254,742	409,784

An ageing analysis is as follows:

Within 90 days	1,216,911	339,144
Between 91 to 180 days	23,677	56,972
Between 181 to 365 days	8,081	8,272
Over 365 days	6,073	5,396
	1,254,742	409,784

Related party suppliers represented China Heavy Duty Truck Group.

19. UNSECURED BANK BORROWINGS

	2004	2003
	RMB'000	RMB'000
Unsecured bank borrowings	20,000	151,720
The maturity profile of the above bank borrowings is as follows:		
On demand or within one year	20,000	31,720
More than one year, but not exceeding two years	—	120,000
	20,000	151,720
Less: Amounts due within one year shown under current liabilities	(20,000)	(31,720)
	—	120,000



Notes to the Financial Statements

For the year ended 31st December, 2004

20. SHARE CAPITAL

	Number of shares		Registered, issued and fully paid RMB'000
	Domestic shares '000	H shares '000	
At 1st January, 2003 and 1st January, 2004	215,000	—	215,000
Conversion of certain state-owned domestic shares to H shares (<i>Note</i>)	(11,500)	11,500	—
Issue of H shares upon listing on the Main Board of the Stock Exchange (including those converted from domestic shares)	—	115,000	115,000
At 31st December, 2004	203,500	126,500	330,000

Note: Pursuant to the approval from the Ministry of Finance of the PRC regarding the sale and conversion of the domestic shares, the total number of H shares issued was 126,500,000 H shares, comprising 115,000,000 new H shares and 11,500,000 H shares converted from 11,500,000 domestic shares.

21. PLEDGE OF ASSETS

At 31st December, 2004, bank deposits and bills receivable of approximately RMB334,445,000 (2003: RMB391,578,000) and RMB119,876,000 (2003: RMB77,115,000) respectively were pledged to secure bills payable issued by banks for the Company.

Notes to the Financial Statements

For the year ended 31st December, 2004

22. CAPITAL COMMITMENTS

	2004	2003
	RMB'000	RMB'000
Capital expenditure contracted for but not provided in the financial statements in respect of:		
Purchase of property, plant and equipment	423,631	208,287
Acquisition of trademarks	—	124,448
	423,631	332,735
Capital expenditure in respect of the acquisition of property, plant and equipment authorised but not contracted for	340,180	—

As set out in note 15, the Company paid a refundable deposit of RMB80,000,000 to CHDTGL for the proposed acquisition of certain assets pursuant to a framework agreement dated 27th September, 2004. The final amount of the consideration for the acquisition, if the transaction goes ahead, is yet to be determined.

23. OTHER COMMITMENTS

In conjunction with China Heavy Duty Truck Group, the Company entered into research and development contracts with AVL List GmbH, a third party, with a contract sum of approximately Euro6.6 million (equivalent to approximately RMB68,741,000).

As at 31st December, 2004, the outstanding commitment amounted to approximately Euro1,445,000, equivalent to approximately RMB15,242,000 (2003: Euro3,965,000, equivalent to approximately RMB41,331,000).



Notes to the Financial Statements

For the year ended 31st December, 2004

24. OPERATING LEASE COMMITMENTS

The Company as lessee

	2004	2003
	RMB'000	RMB'000
Minimum lease payments paid under operating leases during the year:		
Plant and machinery	30,117	15,059
Premises	18,712	10,372
	48,829	25,431

At the balance sheet date, the Company had commitments for future minimum lease payments under non-cancellable operating leases which fall due as follows:

	2004	2003
	RMB'000	RMB'000
Within one year	48,620	47,296
In the second to fifth year inclusive	118,508	162,383
	167,128	209,679

Operating lease payments represent rentals payable by the Company for certain of its plant and machinery and premises. Leases are negotiated for a term ranging from 1 year to 5 years.

Notes to the Financial Statements

For the year ended 31st December, 2004

25. CONNECTED PERSONS AND RELATED PARTIES DISCLOSURE

- (a) During the year, the Company had the following significant transactions with related parties and connected persons:

Related parties and connected persons	Notes	2004	2003
		RMB'000	RMB'000
China Heavy Duty Truck Group:			
Sales of goods	(iii)	1,991,563	807,930
Sales of semi-finished diesel engine parts	(iii)	12,274	66,252
Purchases of materials other than semi-finished diesel engine parts	(iii)	124,768	602,725
Purchases of semi-finished diesel engine parts	(iii)	—	169,731
General services fee paid	(v)	21,288	13,287
Utility services fee paid	(vi)	123,494	62,454
Processing services fee	(vii)	89,178	31,219
Sales and warranty period repair services fee income	(viii)	13,454	2,462
Purchases of property, plant and equipment	(ix)	—	65,021
Purchases of property, plant and equipment	(iv)	88	—
Disposal of property, plant and equipment	(iv)	196	4,296
Purchase of technologies	(x)	—	222,965
Purchase of trademarks	(xi)	119,264	—
Trademarks fee paid	(xii)	5,184	15,552
Technologies fee paid	(xiii)	—	57,035
Rental paid for certain premises, machinery and equipment	(xiv)	46,218	23,109
Fujian Longgong Group (i):			
Sales of goods	(iii)	317,715	216,378
Guangxi Liugong Group (ii):			
Sales of goods	(iii)	335,463	221,525

Notes:

- (i) Fujian Longgong is a promoter of the Company and holds 6.52% interest in the Company at 31st December, 2004. Fujian Longgong together with its affiliates are collectively referred as the "Fujian Longgong Group".
- (ii) Guangxi Liugong is a promoter of the Company and holds 1.36% interest in the Company at 31st December, 2004. Guangxi Liugong together with its affiliates are collectively referred as the "Guangxi Liugong Group".



Notes to the Financial Statements

For the year ended 31st December, 2004

25. CONNECTED PERSONS AND RELATED PARTIES DISCLOSURE (Continued)

- (a) During the year, the Company had the following significant transactions with related parties and connected persons:
(Continued)
- (iii) These transactions were carried out at market prices or, where no market prices were available, at cost plus a mark-up.
 - (iv) These transactions were carried out on terms mutually agreed by the relevant parties.
 - (v) The general services fee was based on the actual cost incurred plus 20% service charge.
 - (vi) The utility services fee was based on the actual usage and with reference to market prices or, where no market prices were available, at actual cost incurred plus 20% service charge.
 - (vii) The processing services fee was based on the actual cost incurred plus 20% service charge.
 - (viii) The sales and warranty period repair service fee income was based on 3% on the sales of medium speed diesel engines on behalf of China Heavy Duty Truck Group.
 - (ix) The consideration for the acquisition of the plant and equipment was based on a valuation report of the related assets prepared by Vigers Appraisal & Consulting Limited ("Vigers") dated 30th June, 2003.
 - (x) The consideration for the acquisition of technologies was based on a valuation report of the relevant intangible assets prepared by Vigers dated 26th February, 2004.
 - (xi) the consideration for the acquisition of trademarks was based on a valuation report of the relevant intangible assets prepared by Vigers dated 26th February, 2004.
 - (xii) The trademarks fee was calculated with reference to a valuation prepared by Vigers of the relevant trademarks as of 1st January, 2003.
 - (xiii) The technologies fee was calculated with reference to a valuation prepared by Vigers of the relevant technologies as of 1st January, 2003.
 - (xiv) Rental for certain premises, machinery and equipment were charged based on a fixed monthly charge.

In the opinion of the Directors, the above transactions were carried out in the ordinary course of the Company's business.

- (b) Details of the trading balances with related parties are set out in notes 17 and 18. These trading balances arose from the transactions set out in note 25(a)(iii).

Notes to the Financial Statements

For the year ended 31st December, 2004

25. CONNECTED PERSONS AND RELATED PARTIES DISCLOSURE (Continued)

(c) Details of the non-trade balances with related party are as follows:

(i) Amount due to a related party	2004	2003
	RMB'000	RMB'000
China Heavy Duty Truck Group (<i>Note</i>)	292,751	219,651

Note: As at 31st December, 2004, included in the balance due to China Heavy Duty Truck Group was an amount of approximately RMB269,635,000 (2003: approximately RMB217,780,000) which represented the balance of the consideration payable for the acquisition of technologies and trademarks from China Heavy Duty Truck Group. The amount is repayable as follows:

	2004	2003
	RMB'000	RMB'000
Within one year	67,409	43,556
In the second year	67,409	43,556
In the third to fifth year inclusive	134,817	130,668
	269,635	217,780
Less: Amount due for settlement within one year (including under current liabilities)	(67,409)	(43,556)
	202,226	174,224

The amount is unsecured, interest-free and repayable in instalments over a period of 5 years.

(ii) As at 31st December, 2004, included in the balance of deposits paid for acquisition of property, plant and equipment was a refundable deposit of RMB80,000,000 (2003: Nil) paid to CHDTGL for the proposed acquisition of certain assets pursuant to a framework agreement dated 27th September, 2004.

26. POST BALANCE SHEET EVENT

Pursuant to the Notice of the Ministry of Finance and the State Administration of Taxation concerning certain preferential policies on enterprise income tax (財政部、國家稅務總局《關於企業所得稅若干優惠政策的通知》) and the Notice of the State Administration of Taxation concerning the proper implementation of the continuing administrative work after the cancellation and delegation of the examination and approval procedure for enterprise income tax (國家稅務總局《關於做好已取消和下放管理的企業所得稅審批項目後續管理工作的通知》), as the Company is a high technology enterprise with registered office situated at a high technology development zone administered by the State ("State Industrial Park"). Since 2005, the Company is entitled to enjoy a preferential income tax rate of 15% on its assessable profit to the extent that it is derived from production in the State Industrial Park.



Financial Summary

	2001	2002	2003	2004
	RMB'000	RMB'000	RMB'000	RMB'000
	(audited)	(audited)	(audited)	(audited)
RESULTS				
Turnover	856,581	1,880,368	3,555,670	6,155,779
Profit from operations	92,798	234,377	485,918	797,523
Finance costs	(10,098)	(9,700)	(30,425)	(53,159)
Profit before taxation	82,700	224,677	455,493	744,364
Taxation	(4,188)	(57,132)	(178,025)	(205,484)
Profit for the year	78,512	167,545	277,468	538,880
Dividends	—	—	20,439	72,075
Basic earnings per share (in RMB)	0.98	2.01	1.29	1.75
ASSETS AND LIABILITIES				
Total Assets	454,841	705,268	2,371,908	4,914,308
Total Liabilities	(359,665)	(487,797)	(1,897,408)	(2,757,587)
Owners' equity	95,176	217,471	474,500	(2,156,721)

Note: The Company was incorporated on 23rd December, 2002 as a joint stock limited company with limited liability in the People's Republic of China. The results of the Company for each of the two years ended 31st December, 2002 and the assets and liabilities at the respective year end date have been prepared on the basis that the Company is regarded as a continuing entity and that the reorganisation had been completed as at the beginning of 1st January, 2001 and the business of the Company had been conducted throughout those years. The results of the Company for each of the three years ended 31st December, 2003 and the assets and liabilities at the respective year end date have been extracted from the Company's prospectus dated 26th February, 2004.