

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