



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.

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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



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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.

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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



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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.

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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.



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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.

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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



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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).

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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
		<i>(Note 1)</i>	
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 <i>(Note 2)</i>	Held by controlled corporation	23,500,000	7.1%
Li San Yim <i>(Note 3)</i>	Held by spouse and controlled corporation	21,500,000	6.5%
Julius G. Kiss <i>(Note 4)</i>	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.



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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.

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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.



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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