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

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

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WEICHA

潍柴动力股份有限公司

WEICHA POWER CO., LTD.

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

(Stock Code: 2338)

**REVISED CAPS FOR EXISTING
CONTINUING CONNECTED TRANSACTIONS**

AND

**PROPOSED APPOINTMENT OF
AN ADDITIONAL
INDEPENDENT NON-EXECUTIVE DIRECTOR**

Independent financial adviser to the Independent Board Committee and the Independent Shareholders



AMS Corporate Finance Limited

A notice convening an Extraordinary general meeting of Weichai Power Co., Ltd. (the “Company”) to be held at 26 Minsheng East Street, Weifang, Shandong Province, the People's Republic of China, at 10:00 a.m. on Wednesday, 15 December, 2004 is set out in this circular.

If you intend to attend the Extraordinary General Meeting, please complete and return the enclosed reply slip in accordance with the instructions printed thereon as soon as possible and in any event by no later than 25 November, 2004 (Thursday).

Whether or not you intend to attend the Extraordinary General Meeting, you are requested to complete the proxy form in accordance with the instructions printed thereon and return it to Computershare Hong Kong Investor Services Limited, the H Share registrar of the Company in Hong Kong, at 46th Floor, Hopewell Centre, 183 Queen's Road East, Hong Kong not less than 24 hours before the time appointed for the holding of the meeting. Completion and return of the form of proxy will not preclude you from attending and voting in person at the meeting or any adjournment thereof should you so wish.

27 October, 2004

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DEFINITIONS

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

“Articles of Association”	the articles of association of the Company from time to time, and “ Articles(s) ” should be construed accordingly
“Board”	the board of Directors
“Buildings and Equipment”	as defined in the section headed “D. Continuing Connected Transactions — I. Continuing connected transactions between the Company and Weichai Factory — 3. Lease of Buildings and Equipment by Weichai Factory to the Company” in the “Letter from the Board” contained in this circular
“CHDTGL”	中國重型汽車集團有限公司 (China Heavy Duty Truck Group Co. Ltd.), a State-owned enterprise. Since Weichai Factory is a substantial shareholder and promoter of the Company (and is accordingly a connected person of the Company) and CHDTGL is the holding company of Weichai Factory, CHDTGL is also a connected person of the Company
“China Heavy Duty Truck Group”	CHDTGL and its subsidiaries. The China Heavy Duty Truck Group (other than the Weichai Factory group of companies and 杭州汽車發動機廠 (Hangzhou Motor Engine Factory)) are engaged in, inter alia, the manufacture of coaches, heavy-duty vehicles and vehicle parts
“Chongchai Production Line”	the Company’s production line located at its premises in Chongqing for the manufacture of WD615 Engines
“Chongqing Branch”	the Company’s facility (being its branch office) in Chongqing, the PRC
“Chongqing Weichai”	重慶濰柴發動機廠 (Chongqing Weichai Diesel Engine Works), a legal person established in the PRC and wholly-owned by Weichai Factory, and since Weichai Factory is a substantial shareholder of the Company, Chongqing Weichai is a connected person of the Company. Chongqing Weichai is engaged in a similar business as Weichai Factory.
“Company”	濰柴動力股份有限公司 (Weichai Power Co., Ltd.), a joint stock limited company incorporated in the PRC with limited liability
“Continuing Connected Transaction(s)”	the continuing connected transactions listed in the section headed “Summary” in this circular, and the details of which have been fully disclosed in the Prospectus
“Continuing Connected Transactions Agreements”	the agreements relating to the Continuing Connected Transactions entered into between the Company and the relevant counterparties, further details of which are set out in the “Letter from the Board” contained in this circular and in the section headed “Business — Connected transactions” in the Prospectus

DEFINITIONS

“Director(s)”	director(s) of the Company, including independent non-executive director(s)
“Engine(s)”	WD615 Engine(s) and/or WD618 Engine(s), as the context may require
“Exempt Continuing Connected Transactions”	being those Continuing Connected Transactions the proposed New Caps for which do not exceed the 2.5% Threshold, and, accordingly, are only subject to the reporting requirements set out in Rules 14A.45 and 14A.46, the announcement requirement in Rule 14A.47 (and the relevant announcement was released on 15 September, 2004) and the annual review requirements in Rules 14A.37 and 14A.38
“Existing Cap(s)”	as defined in the section headed “A. Background to Continuing Connected Transaction” in the “Letter from the Board” contained in this circular
“Extraordinary General Meeting” or “EGM”, and “EGM Notice”	the extraordinary general meeting of the Company to be held for the purpose of approving the New Caps in respect of the Non-exempt Continuing Connected Transactions, and approving the appointment of Mr. Fang Zhong Chang (房忠昌先生) as independent non-executive Director, the notice of which is contained in this circular; and “ EGM Notice ” should be construed accordingly
“Fujian Longgong”	福建龍岩工程機械(集團)有限公司 (Fujian Longyan Construction Machinery (Group) Company Limited), a company incorporated in the PRC and a Promoter (and accordingly it is a connected person of the Company) and in which capital Li San Yim (a non-executive Director) and Ni Yinying (who is Li San Yim’s wife) are interested. Fujian Longgong is engaged in the manufacture and sale of, inter alia, wheel-loaders
“Guangxi Liugong”	廣西柳工集團有限公司 (Guangxi Liugong Group Company Limited), a company established in the PRC, and a Promoter. Guangxi Liugong is a State-owned enterprise
“Guangxi Liugong Machinery”	廣西柳工機械股份有限公司 (Guangxi Liugong Machinery Co., Ltd.), a company established in the PRC. Guangxi Liugong Machinery is engaged in the manufacture and repair of construction machines
“H Share(s)”	the overseas listed foreign share(s) in the capital of the Company with a RMB — denominated par value of RMB1.00 each which are subscribed for and traded in Hong Kong dollars, and they are listed on the main board of the Stock Exchange
“Independent Board Committee”	a committee of the Board comprising Zhang Xiao Yu and Koo Fook Sun, Louis, being the independent non-executive Directors

DEFINITIONS

“Independent Financial Adviser”	AMS Corporate Finance Limited, a corporation deemed licensed under transitional arrangement to carry on type 4 (advising on securities), type 6 (advising on corporate finance) and type 9 (asset management) regulated activities under the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong) and being the independent financial adviser appointed by the Company to advise the Independent Board Committee and the Independent Shareholders in respect of the Non-exempt Continuing Connected Transactions
“Independent Shareholders”	being the independent Shareholders referred to in the “Letter from the Board” contained in this circular
“Latest Practicable Date”	22 October, 2004, being the latest practicable date for the purpose of ascertaining certain information contained in this circular before its despatch
“Listing Rules” or “Rule(s)”	the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited
“New Address”	中國山東省濰坊市高新技術產業開發區福壽東街甲197號 (郵政編碼 :261061) (197, Section A, Fu Shou East Street, High Technology Industrial Development Zone, Weifang City, Shandong Province, the PRC (Postal Code: 261061))
“New Cap(s)”	as defined in the section headed “B. New Caps” in the “Letter from the Board” contained in this circular
“Non-exempt Continuing Connected Transactions”	being those Continuing Connected Transactions the proposed New Caps for which exceed the 2.5% Threshold, and, accordingly, they will be subject to the reporting requirements set out in Rules 14A.45 and 14A.46, the announcement requirement in Rule 14A.47 (and the relevant announcement was released on 15 September, 2004) and the annual review requirements in Rules 14A.37 and 14A.38 and approval from the relevant independent Shareholders at the EGM will be required
“Offering”	the initial public offering and international placing of Shares as referred to in the Prospectus
“Original Agreements”	the agreements (other than the Supplemental Agreements) referred to in this circular and have been amended or are proposed to be amended (as the case may be) by the Supplemental Agreements
“percentage ratio(s)”	shall have the meaning set out in Rule 14.04
“Peterson”	Peterson Holdings Company Limited (培新控股有限公司), a company incorporated in Hong Kong and a Promoter

DEFINITIONS

“PRC” or “China”	the People’s Republic of China, which, for the purpose of this circular, unless otherwise specified, excludes the Hong Kong Special Administrative Region of the PRC, the Macau Special Administrative Region of the PRC and Taiwan
“profits ratio”	shall have the meaning set out in Rule 14.07
“Promoter(s)”	Weichai Factory, Peterson, 濰坊市投資公司 (Weifang Investment Company), Fujian Longgong, 深圳市創新投資集團有限公司 (Shenzhen Chuangxin Investment Group Company Limited), IVM Technical Consultants Wien Gesellschaft m.b.H., 山東省企業托管經營股份有限公司 (Shandong Enterprise Trust Operation Company Limited), Guangxi Liugong and 24 natural persons whose names are set out in the Prospectus
“Prospectus”	the prospectus issued by the Company and dated 26 February, 2004
“SFO”	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong)
“Shanghai Longgong”	上海龍工機械有限公司 (Shanghai Longgong Machinery Company Limited), a company established in the PRC. Shanghai Longgong is engaged in the manufacture and sale of, inter alia, construction machines
“Share(s)”	shares of the Company
“Shareholders”	holder(s) of Share(s)
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Supplemental Agreement”	each of the supplemental agreements as referred to in this circular and entered into between the Company and each of the counterparties to the respective Continuing Connected Transactions Agreements (certain of which are conditional on the relevant independent Shareholders approving the relevant New Caps at the EGM)
“Weichai Deutz”	濰坊濰柴道依茨柴油機有限公司 (Weifang Weichai Deutz Diesel Engine Co., Ltd.), a company established in the PRC. Weichai Deutz is engaged in the manufacture and sale of 226B series diesel engines, but they are not high-speed heavy-duty diesel engines, and they cannot be used in heavy-duty vehicles with a load capacity of 15 tonnes (or above) or heavy-duty construction machines, which are the key markets for the Company’s WD615 and WD618 Engines

DEFINITIONS

“Weichai Factory”	濰坊柴油機廠 (Weifang Diesel Engine Works), a legal person established in the PRC, and a Promoter. Weichai Factory is wholly owned by CHDTGL. Weichai Factory is engaged in the manufacture and sale of 6160A series, 170Z series and R and 95 series diesel engines, but none of them are high-speed heavy-duty diesel engines, and they cannot be used in heavy-duty vehicles with a load capacity of 15 tonnes (or above) or heavy-duty construction machines, which are the key markets for the Company’s WD615 and WD618 Engines. Weichai Factory is a substantial shareholder and promoter of the Company and is accordingly a connected person of the Company
“Weichai Gas”	濰坊濰柴培新氣體發動機有限責任公司 (Weifang Weichai Peterson Gas Diesel Engines Company Limited), a company established in the PRC. Weichai Gas is engaged in the business of, inter alia, the manufacture and sale of gas-propelled internal combustion engines and parts
“Weichai Production Line”	the Company’s production line located at its premises in Weifang, Shandong Province for the manufacture of WD615 and WD618 Engines
“WD615” or “WD615 Engine(s)”	the water-cooled, linear, 6-cylinder, turbo-charging, direct-injection high-speed diesel engine(s) with a displacement of 9.726 litres, manufactured by the Company
“WD618” or “WD618 Engine(s)”	a new series of diesel engines developed based on the WD615 series with a displacement of 11.596 litres, manufactured by the Company
“2.5% Threshold”	the percentage ratios referred to in Rule 14A.34(1) and Rule 14A.34(2) or, where applicable, if the relevant New Cap is equal to or more than 2.5% but less than 25% of any of such percentage ratios, HK\$10,000,000

LETTER FROM THE BOARD



WEICHAI
潍柴动力股份有限公司
WEICHAI POWER CO., LTD.

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

(Stock Code: 2338)

Executive Directors:

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

Registered office:

26 Minsheng East Street
Weifang
Shandong Province
The People's Republic of China

Non-executive Directors:

Yeung Sai Hong
Chen Xuejian
Yao Yu
Li San Yim
Tong Jingen
Zhang Fusheng
Julius G. Kiss
Feng Gang

**Principal place of business
in Hong Kong:**

Unit 2409
Wing On Centre
111 Connaught Road Central
Hong Kong

Independent Non-executive Directors:

Zhang Xiaoyu
Koo Fook Sun, Louis

Supervisors:

Sun Chengping
Wang Yong
Jiang Jianfang

27 October, 2004

To: Holders of overseas listed foreign shares
("H Shares") in the capital of
Weichai Power Co., Ltd.

Dear Sir or Madam,

**REVISED CAPS FOR EXISTING
CONTINUING CONNECTED TRANSACTIONS**

AND

**PROPOSED APPOINTMENT OF
AN ADDITIONAL
INDEPENDENT NON-EXECUTIVE DIRECTOR**

We refer to the announcement of the Company dated 15 September, 2004 in respect of the above matters. This circular gives you further information in relation to such matters, and contains the advice of the Independent Financial Adviser to the Independent Board Committee in relation to the Non-exempt Continuing Connected Transactions and the EGM Notice.

LETTER FROM THE BOARD

A. Background to Continuing Connected Transactions

The Company was established by Weichai Factory (as lead promoter), together with other promoters (being certain senior management members and strategic investors), entering into a promoters' agreement in November 2002. Weichai Factory injected its operating assets and liabilities relating to WD615 and WD618 Engines as part of its capital contribution to the Company. Certain of the said strategic investors and/or their associates are also customers of the Company. Since such strategic investors and Weichai Factory are promoters of the Company, the ongoing transactions between them and/or their associates constitute continuing connected transactions of the Company.

At the time of the listing of the Company's H Shares on the Stock Exchange, the Company obtained from the Stock Exchange a waiver from strict compliance with the connected transactions requirements under the Listing Rules in respect of the Continuing Connected Transactions for the two financial years ending 31 December, 2005 and a separate annual cap has been assigned to each of such Continuing Connected Transactions for each of the two years ending 31 December, 2005 (the **"Existing Caps"**).

B. New Caps

The Company monitors and anticipates its Continuing Connected Transactions, and based on its internal estimate of the demand for the Company's products as well as the operating conditions of the Company, the Company proposes to revise certain of the Existing Caps (such revised caps shall be referred to as the **"New Caps"**) as set out below.

Rule 14A.34 provides exemptions for certain continuing connected transactions from the independent shareholders' approval requirement under Rule 14A.48 (provided that the relevant continuing connected transaction (on an annual basis) does not exceed the 2.5% Threshold. Certain of the New Caps do not exceed, but certain of them exceed, the 2.5% Threshold. Accordingly, with respect to those New Caps which exceed the 2.5% Threshold (being the Non-exempt Continuing Connected Transactions), they will be subject to the reporting requirements set out in Rules 14A.45 and 14A.46, the announcement requirement in Rule 14A.47 (and the relevant announcement was released on 15 September, 2004 as referred to above) and the annual review requirements of Rules 14A.37 and 14A.38 and approval from the relevant independent Shareholders at the EGM will be required; whereas the Exempt Continuing Connected Transactions are only subject to the reporting requirements set out in Rules 14A.45 and 14A.46, the announcement requirement in Rule 14A.47 (and the relevant announcement was released on 15 September, 2004) and the annual review requirements of Rules 14A.37 and 14A.38.

LETTER FROM THE BOARD

The Continuing Connected Transactions are listed below:

Connected person and details of relevant Continuing Connected Transactions

2004
RMB' million
2005
RMB' million
2006
RMB' million

I. Weichai Factory

1.	Provision of general services by Weichai Factory to the Company	<i>Existing Cap</i> <i>New Cap</i>	15 n/a	16 n/a	— 18**
2.	Supply and/or connection of utilities by Weichai Factory to the Company	<i>Existing Cap</i> <i>New Cap</i>	135 n/a	170 n/a	— 170**
3.	Lease of Buildings and Equipment by Weichai Factory to the Company	<i>Existing Cap</i> <i>New Cap</i>	43 n/a	43 n/a	— 43*
4.	Supply of WD615 Engines by the Company to Weichai Factory	<i>Existing Cap</i> <i>New Cap</i>	6 90**	7 115**	— 115**
5.	Supply of finished diesel engine parts by Weichai Factory to the Company	<i>Existing Cap</i> <i>New Cap</i>	65 75*	93 115**	— 180**
6.	Supply of semi-finished diesel engine parts by the Company to Weichai Factory	<i>Existing Cap</i> <i>New Cap</i>	45 175**	52 200**	— 200**
7.	Provision of sales and warranty period repair services by the Company to Weichai Factory	<i>Existing Cap</i> <i>New Cap</i>	8 16**	8 16**	— 16**

II. Chongqing Weichai

1.	Provision of general services by Chongqing Weichai to the Company	<i>Existing Cap</i> <i>New Cap</i>	5 10*	6 13*	— 16**
2.	Supply and/or connection of utilities by Chongqing Weichai to the Company	<i>Existing Cap</i> <i>New Cap</i>	65 n/a	90 n/a	— 90**
3.	Lease of Chongqing Properties by Chongqing Weichai to the Company	<i>Existing Cap</i> <i>New Cap</i>	4 n/a	4 n/a	— 4*

LETTER FROM THE BOARD

4.	Provision of processing services by Chongqing Weichai to the Company	<i>Existing Cap</i>	96	164	—
		<i>New Cap</i>	n/a	n/a	164**

III. The China Heavy Duty Truck Group

1.	Supply of diesel engines and finished diesel engine parts by the Company to CHDTGL and/or its associates	<i>Existing Cap</i>	1,029	1,465	—
		<i>New Cap</i>	1,800**	2,600**	4,100**
2.	Supply of finished and semi-finished diesel engine parts by CHDTGL and/or its associates to the Company	<i>Existing Cap</i>	37	45	—
		<i>New Cap</i>	70*	110**	165**

IV. Weichai Gas

Supply of WD615 Engines and related parts by the Company to Weichai Gas	<i>Existing Cap</i>	6	10	—
	<i>New Cap</i>	30*	70*	140**

V. Guangxi Liugong Machinery

Supply of WD615 Engines and parts by the Company to Guangxi Liugong Machinery	<i>Existing Cap</i>	259	287	—
	<i>New Cap</i>	400**	600**	710**

VI. Fujian Longgong

Supply of diesel engines and parts by the Company to Fujian Longgong	<i>Existing Cap</i>	76	76	—
	<i>New Cap</i>	105**	155**	185**

VII. Shanghai Longgong

Supply of diesel engines and parts by the Company to Shanghai Longgong	<i>Existing Cap</i>	198	199	—
	<i>New Cap</i>	315**	470**	555**

VIII. Weichai Deutz

Supply of semi-finished diesel engine parts by the Company to Weichai Deutz	<i>Existing Cap</i>	24	55	—
	<i>New Cap</i>	n/a	n/a	55*

Notes:

- (1) Where New Caps are denoted with “n/a” in the above table, it means that the Company does not intend to revise the relevant Existing Caps, and those relevant Existing Caps will continue to apply.

LETTER FROM THE BOARD

- (2) For the purposes of ascertaining whether a Continuing Connected Transaction would exceed the 2.5% Threshold and hence whether it is an Exempt Continuing Connected Transaction or a Non-exempt Continuing Connected Transaction, the transactions within each of the following paragraphs (i) to (v) have been aggregated:-
- (i) sections I(1), I(2), II(1) and II(2) above;
 - (ii) sections I(4), I(6) and I(7) above;
 - (iii) sections I(3) and II(3) above;
 - (iv) sections I(5) and II(4) above; and
 - (v) sections VI and VII above.
- (3) Where a New Cap is marked “*”, that means the relevant Continuing Connected Transactions are Exempt Continuing Connected Transactions.
- (4) Where a New Cap is marked “***”, that means the relevant Continuing Connected Transactions are Non-exempt Continuing Connected Transactions, because they either individually or when aggregated in the manner as referred to in paragraph (2) above exceed the 2.5% Threshold, or more than HK\$10,000,000 (even if they may be less than 25% of each of the percentage ratios (other than the profits ratio)).

C. Extension of the Continuing Connected Transactions Agreements

Furthermore, the provisions of Rule 14A.35 permit the Continuing Connected Transactions Agreements to have a term of three years, and therefore the Company has entered into the Supplemental Agreements (certain of which are conditional on the relevant independent Shareholders approving the relevant New Caps at the EGM) to extend the term of the relevant Continuing Connected Transactions Agreements to 31 December, 2006.

LETTER FROM THE BOARD

D. Continuing Connected Transactions

Details of the Continuing Connected Transactions have been set out in the Prospectus. A summary of the Continuing Connected Transactions, the reasons for seeking the New Caps and the variations to the Continuing Connected Transactions Agreements are set out in this section below. (Note: Where New Caps are denoted with “n/a” in any of the tables in this section below, it means that the Company does not intend to revise the relevant Existing Caps, and those relevant Existing Caps will continue to apply.)

I. Continuing connected transactions between the Company and Weichai Factory

1. Provision of general services by Weichai Factory to the Company

Agreement: 1. General services agreement dated 17 November, 2003 (as amended)
2. Supplemental Agreement dated 15 September, 2004

Parties: 1. The Company
2. Weichai Factory

Expiry date: 31 December, 2006 (under the Supplemental Agreement)

Other terms and details:

Pursuant to the general services agreement, Weichai Factory has agreed to provide certain general services to the Company, namely, environmental protection, security, fire, repair, maintenance and other general services and the payment of certain town land use right tax in relation to the property occupied and/or used by the Company (and/or its staff, if applicable), for a term of three years with effect as from 1 January, 2003.

Under the general services agreement, the fees to be charged by Weichai Factory will be based on the costs incurred by it and apportioned on a pro-rata basis according to the area of the relevant property occupied and/or used by the Company plus a service charge representing 20% of such costs.

The Company estimates that the amount payable by the Company to Weichai Factory in respect of such general services for the two years ending 31 December, 2005 will not exceed the Existing Caps, and that the amount payable for the year ending 31 December, 2006 will not exceed RMB18 million, and such amount is set as the New Cap for the year ending 31 December, 2006.

The table below summarises the Existing Caps and New Cap for the Continuing Connected Transactions set out in this sub-section for the three years ending 31 December, 2006.

	2004	2005	2006
	<i>RMB' million</i>		
Existing Cap	15	16	—
New Cap	n/a	n/a	18

LETTER FROM THE BOARD

The above Existing Caps and New Cap have been estimated by the Company primarily based on the relevant historical costs incurred plus a service charge representing 20% of such costs and the estimated salary growth rate for each of the three financial years ending 31 December, 2006.

Since the New Cap for this Continuing Connected Transaction for the year ending 31 December, 2006 (when aggregated with those New Caps for the same period under sections I(2), II(1) and II(2) below) exceeds the 2.5% Threshold, it constitutes Non-exempt Continuing Connected Transaction of the Company under Chapter 14A of the Listing Rules and will be subject to the reporting requirements set out in Rules 14A.45 and 14A.46, the announcement requirement in Rule 14A.47 (and the relevant announcement was released on 15 September, 2004) and the annual review requirements of Rules 14A.37 and 14A.38, and approval from the independent Shareholders (being Shareholders other than Weichai Factory and Tan Xuguang (who is the general manager of Weichai Factory), who will abstain from voting at the EGM in relation to the resolution to be proposed in respect of this New Cap, and no other Shareholders will be required to abstain from voting in relation thereto at the EGM) at the EGM will be required. Furthermore, since this Continuing Connected Transaction is a Non-exempt Continuing Connected Transaction and is subject to independent Shareholders' approval as aforesaid, the relevant Supplemental Agreement (which will extend the term of the original general services agreement to 31 December, 2006) is conditional upon the said resolution being passed at the EGM. All the other terms of the original general services agreement remain unchanged.

2. *Supply and/or connection of utilities by Weichai Factory to the Company*

Agreement: 1. Utility services agreement dated 17 November, 2003
 2. Supplemental Agreement dated 15 September, 2004

Parties: 1. The Company
 2. Weichai Factory

Expiry date: 31 December, 2006 (under the Supplemental Agreement)

Other terms and details:

Pursuant to the utility services agreement, Weichai Factory has agreed to provide or provide the connection of (as the case may be) certain utility and energy services to the Company, namely, water, electricity, gas, steam, oxygen, nitrogen, compressed air, waste water treatment and supply of treated waste water, etc., for a term of three years with effect as from 1 January, 2003.

The costs incurred by Weichai Factory with respect to the provision and/or connection of the utility and energy services to the Company were determined based on the amount of utilities supplied to the Company.

Under the utility services agreement, the fees payable by the Company to Weichai Factory in respect of the relevant utility and energy services will be determined based on the usage of the Company and by reference to the market prices of such utilities. If only government published rates are available with respect to

LETTER FROM THE BOARD

certain utilities, the fees payable will be determined by reference to the government published rates plus the wastage, depreciation and repair expenses incurred by Weichai Factory in relation thereto. If no market price or government published rates with respect to the above utilities are available, the Company will pay the costs incurred by Weichai Factory in relation to the provision of the relevant utility and energy services plus a service charge representing 20% of such costs.

The Company estimates that the fees payable by the Company to Weichai Factory in respect of the utility and energy services mentioned above for the two years ending 31 December, 2005 will not exceed the Existing Caps and that the amount payable for the year ending 31 December, 2006 will not exceed the Existing Cap for the year ending 31 December, 2005 (being RMB170 million), and such amount is set as the New Cap for the year ending 31 December, 2006.

The table below summarises the Existing Caps and New Cap for the Continuing Connected Transactions set out in this sub-section for the three years ending 31 December, 2006.

	2004	2005	2006
	<i>RMB' million</i>		
Existing Cap	135	170	—
New Cap	n/a	n/a	170

The Company estimates that the utility and energy services costs incurred by the Company in 2006 will remain the same as that of 2005, as the Company's new production facility (which is expected to become operational in 2005) (i) will not require the provision of utility and energy services by Weichai Factory, and (ii) will assume part of the production work of the Company's existing production facility.

Since the New Cap exceeds the 2.5% Threshold, these Continuing Connected Transactions for the year ending 31 December, 2006 constitute Non-exempt Continuing Connected Transactions of the Company under Chapter 14A of the Listing Rules and will be subject to the reporting requirements set out in Rules 14A.45 and 14A.46, the announcement requirement in Rule 14A.47 (and the relevant announcement was released on 15 September, 2004) and the annual review requirements of Rules 14A.37 and 14A.38, and approval from the independent Shareholders (being Shareholders other than Weichai Factory and Tan Xuguang (who is the general manager of Weichai Factory), who will abstain from voting at the EGM in relation to the resolution to be proposed in respect of this New Cap, and no other Shareholders will be required to abstain from voting in relation thereto at the EGM) at the EGM will be required. Furthermore, since these Continuing Connected Transactions are Non-exempt Continuing Connected Transactions and are subject to independent Shareholders' approval as aforesaid, the relevant Supplemental Agreement (which will extend the term of this utility services agreement to 31 December, 2006) is conditional upon the said resolution being passed at the EGM. All the other terms of the original utility services agreement remain unchanged.

LETTER FROM THE BOARD

3. *Lease of buildings and equipment by Weichai Factory to the Company*

Agreement: Asset lease agreement dated 21 October, 2003

Parties: 1. The Company
2. Weichai Factory

Expiry date: 30 June, 2008 (but, at any time during the term of this agreement, the Company has the right to terminate this agreement)

Other terms and details:

Pursuant to the asset lease agreement, Weichai Factory has agreed to lease to the Company, certain buildings (including factories and warehouses with a total gross floor area of 63,245 sq.m.) situated in Weichai Factory (the “**Buildings**”) and all the equipment in relation to the manufacture of certain semi-finished diesel engine parts (collectively known as the “**Equipment**”) located in the Buildings (and such Buildings and Equipment are commonly known as the casting and forging workshop) for a term of 5 years commencing 1 July, 2003 (and, at any time during the term of this agreement, the Company has the right to terminate this agreement) at an annual rental of RMB42,814,310, and RMB43 million has accordingly been set as the Existing Cap for this Continuing Connected Transaction. Since the same amount will continue to be payable for the year ending 31 December, 2006, such amount is set as the New Cap for the year ending 31 December, 2006. Vigers Appraisal & Consulting Limited (being the property valuer engaged by the Company for the purpose of preparing a valuation report contained in the Prospectus in relation to various property interests of the Company) confirmed in the Prospectus that the above annual rental reflected the then prevailing market rates and was fair and reasonable.

The table below summarises the Existing Caps and New Cap for the Continuing Connected Transactions set out in this sub-section for the three years ending 31 December, 2006.

	2004	2005	2006
	<i>RMB' million</i>		
Existing Cap	43	43	—
New Cap	n/a	n/a	43

Since the New Cap does not exceed the 2.5% Threshold, this Continuing Connected Transaction constitute Exempt Continuing Connected Transactions of the Company under Chapter 14A of the Listing Rules and is subject to the reporting requirements set out in Rules 14A.45 and 14A.46, the announcement requirement in Rule 14A.47 (and the relevant announcement was released on 15 September, 2004) and the annual review requirements of Rules 14A.37 and 14A.38. The terms of this asset lease agreement remain unchanged.

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4. *Supply of WD615 Engines by the Company to Weichai Factory*

Agreement: 1. Framework agreement dated 17 November, 2003
 2. Supplemental Agreement dated 15 September, 2004

Parties: 1. The Company
 2. Weichai Factory

Expiry date: 31 December, 2006 (under the Supplemental Agreement)

Other terms and details:

Weichai Factory is also engaged in the manufacture and sale of power generators, of which the Company's WD615 Engines are one of the components. Such sales by the Company are conducted on the basis of market prices and the Company has entered into the framework agreement with Weichai Factory in this regard.

Due to the power shortage in China, the Company believes that factories purchase their own power generators to maintain normal operations, and as a result, the demand for power generators in China has increased significantly. As such, any increase in orders for Weichai Factory's power generators will in turn drive Weichai Factory's demand for the Company's WD615 Engines (in particular the higher end models of WD615 Engines), being one of the components of Weichai Factory's power generators. The Company is a leading manufacturer of the diesel engines in the PRC with market shares in supplying heavy-duty vehicles with a load capacity of 15 tonnes (and above) and wheel-loaders with a load capacity of 5 tonnes (and above) of approximately 75% and 73%, respectively. This evidences the quality and competitiveness of the Company's Engines generally. With the proximity between the Company's production facilities and those of Weichai Factory and in view of the high quality and competitiveness of the Company's Engines, the Company believes that Weichai Factory will continue to purchase the Company's Engines for the manufacture of its power generators.

For the above reasons and based on the average selling prices of its WD615 Engines for the 6 months ended 30 June, 2004, the Company estimates that the total consideration payable by Weichai Factory to the Company for the three years ending 31 December, 2006 will not exceed RMB90 million, RMB115 million and RMB115 million, respectively, and such amounts have accordingly been set as the proposed New Caps for these Continuing Connected Transactions.

The table below summarises the Existing Caps and New Caps for the Continuing Connected Transactions set out in this sub-section for the three years ending 31 December, 2006.

	2004	2005	2006
	<i>RMB'million</i>		
Existing Cap	6	7	—
New Cap	90	115	115

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The severe escalation of power shortage in China has far exceeded the anticipation of the Company at the time when it estimated the relevant Existing Caps. As a result thereof, the orders for Weichai Factory's power generators as well as Weichai Factory's demand for the Company's WD615 Engines have increased tremendously. The above proposed New Caps have been prepared by the Company primarily based on (i) the estimate prepared by Weichai Factory of the number of diesel engines required by Weichai Factory for 2004 (which amount is contained in the Supplemental Agreement and is more than ten times of that previously supplied by Weichai Factory), an estimated 25% growth rate for 2005 and Weichai Factory's anticipation that infrastructure investments in the power sector will increase power supply in the PRC and therefore the demand for its power generators will remain steady in 2006, and (ii) the Company's estimate of the average unit prices of those diesel engines throughout the periods.

Since the New Caps exceed the 2.5% Threshold, these Continuing Connected Transactions for the three years ending 31 December, 2006 constitute Non-exempt Continuing Connected Transactions of the Company under Chapter 14A of the Listing Rules and will be subject to the reporting requirements set out in Rules 14A.45 and 14A.46, the announcement requirement in Rule 14A.47 (and the relevant announcement was released on 15 September, 2004) and the annual review requirements of Rules 14A.37 and 14A.38, and approval from the independent Shareholders (being Shareholders other than Weichai Factory and Tan Xuguang (who is the general manager of Weichai Factory), who will abstain from voting at the EGM in relation to the resolution to be proposed in respect of this New Cap, and no other Shareholders will be required to abstain from voting in relation thereto at the EGM) at the EGM will be required. Furthermore, since these Continuing Connected Transactions are Non-exempt Continuing Connected Transactions and are subject to independent Shareholders' approval as aforesaid, the relevant Supplemental Agreement (which will extend the term of this framework agreement to 31 December, 2006 and will revise the estimated demand for the Company's products for the two years ending 31 December, 2005 as well as containing an estimate for the year ending 31 December, 2006) is conditional upon the said resolution being passed at the EGM. Save as aforesaid, all the other terms of the original framework agreement remain unchanged.

5. *Supply of finished diesel engine parts by Weichai Factory to the Company*

Agreement:

1. Finished diesel engine parts supply agreement dated 17 November, 2003
2. Supplemental Agreement dated 15 September, 2004

Parties:

1. The Company
2. Weichai Factory

Expiry date: 31 December, 2006 (under the Supplemental Agreement)

Other terms and details:

Pursuant to the finished diesel engine parts supply agreement, Weichai Factory has agreed that, for a period of three years with effect as from 1 January, 2003, with respect to any supply of finished diesel engine parts by Weichai Factory to the

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Company, such supply will be made at a consideration equal to the lower of (i) the costs in relation to the manufacture of the relevant finished diesel engine parts incurred by Weichai Factory plus a service charge not exceeding 20% of such costs; or (ii) the relevant market prices (if available).

As a result of the growing demand for the heavy-duty vehicles and construction machines and the power shortage in China as mentioned above, and the increase in demand for the Company's Engines by those sectors, the Company has experienced a significant growth in the sales of WD615 Engines in the second quarter of 2004.

The Company estimates that the total consideration payable by the Company to Weichai Factory for the three financial years ending 31 December, 2006 will not exceed RMB75 million, RMB115 million and RMB180 million, respectively, and such amounts have accordingly been set as the proposed New Caps.

The table below summarises the Existing Caps and the New Caps for the Continuing Connected Transactions set out in this sub-section for the three years ending 31 December, 2006.

	2004	2005	2006
	<i>RMB'million</i>		
Existing Cap	65	93	—
New Cap	75	115	180

The above proposed New Caps have been prepared by the Company primarily based on its estimate of the production volume of diesel engines and of the average unit prices (which have been projected based on the Company's estimated salary growth rate) of those finished diesel engine parts to be purchased by the Company.

The significant growth of the proposed New Caps is mainly attributable to the estimated increase in the production volume of the Company's WD615 Engines due to the growing demand for the heavy-duty vehicles and construction machines and the power shortage in China as mentioned above and, on such bases, the Company's estimation of its production volume of Engines for the three financial years ending 31 December, 2006 not exceeding 130,000, 200,000 and 300,000 units of Engines, representing an approximately 50% increase year-on-year.

Since the New Cap for the year ending 31 December, 2004 does not exceed the 2.5% Threshold, this Continuing Connected Transaction constitutes Exempt Continuing Connected Transactions of the Company under Chapter 14A of the Listing Rules and is subject to the reporting requirements set out in Rules 14A.45 and 14A.46, the announcement requirement in Rule 14A.47 (and the relevant announcement was released on 15 September, 2004) and the annual review requirements of Rules 14A.37 and 14A.38.

However, as the New Caps for the two years ending 31 December, 2006 exceed the 2.5% Threshold, these Continuing Connected Transactions constitute Non-exempt Continuing Connected Transactions of the Company under Chapter 14A of the Listing Rules and is subject to the reporting requirements set out in Rules 14A.45 and 14A.46, the announcement requirement in Rule 14A.47 (and the relevant

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announcement was released on 15 September, 2004) and the annual review requirements of Rules 14A.37 and 14A.38, and approval from the independent Shareholders (being Shareholders other than Weichai Factory and Tan Xuguang (who is the general manager of Weichai Factory), who will abstain from voting at the EGM in relation to the resolution to be proposed in respect of this New Cap, and no other Shareholders will be required to abstain from voting in relation thereto at the EGM) at the EGM will be required. Furthermore, since these Continuing Connected Transactions are Non-exempt Continuing Connected Transactions and are subject to independent Shareholders' approval as aforesaid, the relevant Supplemental Agreement (which will extend the term of this finished diesel engine parts supply agreement to 31 December, 2006) is conditional upon the said resolution being passed at the EGM. All the other terms of the original finished diesel engine parts supply agreement remain unchanged.

6. *Supply of semi-finished diesel engine parts by the Company to Weichai Factory*

Agreement:

1. Semi-finished diesel engine parts supply agreement dated 17 November, 2003
2. Supplemental Agreement dated 15 September, 2004

Parties:

1. The Company
2. Weichai Factory

Expiry date: 31 December, 2006 (under the Supplemental Agreement)

Other terms and details:

Pursuant to the semi-finished diesel engine parts supply agreement, the Company has agreed that, for a period of three years with effect as from 1 July, 2003, with respect to any supply of semi-finished diesel engine parts by the Company to Weichai Factory, such supply will be made at a consideration based on the costs in relation to the provision of the semi-finished diesel engine parts incurred by the Company plus a service charge not exceeding 20% of such costs, but will not be less than the relevant market prices, if any (provided that it is permitted by the relevant laws and regulations in the PRC to do so).

As a result of the power shortage in China as mentioned above, the demand for Weichai Factory's power generators has increased significantly. The demand for Weichai Factory's medium-speed diesel engines has also increased. The severe escalation of power shortage in China has far exceeded the anticipation of the Company at the time when it estimated the relevant Existing Caps. As a result thereof, the orders for Weichai Factory's power generators as well as Weichai Factory's demand for the Company's semi-finished diesel engine parts have increased tremendously. The Company believes that, owing to the quality of its semi-finished diesel engine parts and their compatibility with the diesel engines of Weichai Factory, Weichai Factory will continue to source such semi-finished diesel engine parts from the Company. As such, the Company estimates that the total consideration payable by Weichai Factory to the Company for the three financial years ending 31 December, 2006 will not exceed RMB175 million, RMB200 million and RMB200 million, respectively, and such amounts have accordingly been set as the proposed New Caps for these Continuing Connected Transactions.

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The table below summarises the Existing Caps and New Caps for the Continuing Connected Transactions set out in this sub-section for the three years ending 31 December, 2006.

	2004	2005	2006
	<i>RMB' million</i>		
Existing Cap	45	52	—
New Cap	175	200	200

The above New Caps have been prepared by the Company primarily based on its estimate of the quantity of the semi-finished diesel engine parts to be sold by the Company to Weichai Factory, which in turn was based on the estimation (i) prepared by Weichai Factory of its production volume of power generators and medium-speed diesel engines (which is approximately 210% of the estimate previously supplied by Weichai Factory) and an approximately 25% increase in the costs of such semi-finished diesel engine parts required on a per unit of diesel engine basis for 2004, an estimated 15% production volume growth rate for 2005 and Weichai Factory's anticipation that infrastructure investments in the power sector will increase power supply in the PRC and therefore the demand for its power generators will remain steady in 2006, and (ii) the Company's estimation of the average selling price of its semi-finished diesel engine parts which was based on the estimated costs in relation to the provision of the semi-finished diesel engine parts plus a service charge of 20% of such costs.

Since the New Caps exceed the 2.5% Threshold, these Continuing Connected Transactions for the three years ending 31 December, 2006 constitute Non-exempt Continuing Connected Transactions of the Company under Chapter 14A of the Listing Rules and will be subject to the reporting requirements set out in Rules 14A.45 and 14A.46, the announcement requirement in Rule 14A.47 (and the relevant announcement was released on 15 September, 2004) and the annual review requirements of Rules 14A.37 and 14A.38, and approval from the independent Shareholders (being Shareholders other than Weichai Factory and Tan Xuguang (who is the general manager of Weichai Factory), who will abstain from voting at the EGM in relation to the resolution to be proposed in respect of this New Cap, and no other Shareholders will be required to abstain from voting in relation thereto at the EGM) at the EGM will be required. Furthermore, since these Continuing Connected Transactions are Non-exempt Continuing Connected Transactions and are subject to independent Shareholders' approval as aforesaid, the relevant Supplemental Agreement (which will extend the term of this supply agreement to 31 December, 2006) is conditional upon the said resolution being passed at the EGM. All the other terms of the original supply agreement remain unchanged.

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7. *Provision of sales and warranty period repair services by the Company to Weichai Factory*

Agreement: 1. Master sales and warranty period repair services agreement dated 17 November, 2003
 2. Supplemental Agreement dated 15 September, 2004

Parties: 1. The Company
 2. Weichai Factory

Expiry date: 31 December, 2006 (under the Supplemental Agreement)

Other terms and details:

As the Company and Weichai Factory share the same sales and maintenance network prior to the incorporation of the Company, and such network has become part of the business of the Company after its incorporation, the Company and Weichai Factory entered into the master sales and warranty period repair services agreement in this regard. Under such agreement, the Company has agreed to provide sales and warranty period repair services to the customers of Weichai Factory with respect to the diesel engines manufactured by Weichai Factory for a period of three years with effect as from 1 September, 2003. In consideration of the services provided by the Company, Weichai Factory has agreed to pay the Company an annual service fee of 3% of the total amount of sales of diesel engines procured by the Company. The 3% service charge is determined based on the historical sales and maintenance costs incurred by Weichai Factory.

Due to the factors mentioned in the paragraph headed “6. Supply of semi-finished diesel engine parts by the Company to Weichai Factory” above, sales of medium-speed diesel engines has increased significantly. As such, the Company estimates that the total service fees payable by Weichai Factory to the Company for the three financial years ending 31 December, 2006 will not exceed approximately RMB16 million, RMB16 million and RMB16 million, respectively, and such amounts have accordingly been set as the New Caps for these Continuing Connected Transactions.

The table below summarises the Existing Caps and New Caps for the Continuing Connected Transactions set out in this sub-section for the three years ending 31 December, 2006.

	2004	2005	2006
	<i>RMB' million</i>		
Existing Cap	8	8	—
New Cap	16	16	16

The above New Caps have been estimated by the Company based on 3% of the estimated amount of the sales of the diesel engines manufactured by Weichai Factory (which amount is in line with (but approximately 9% less than) Weichai Factory's estimated production volume of power generators and medium-speed diesel engines for 2004 as stated in the paragraph headed “6. Supply of semi-finished

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diesel engine parts by the Company to Weichai Factory” above) procured by the Company. As a result of the power shortage in China as mentioned above, the demand for Weichai Factory’s power generators has increased significantly. The demand for Weichai Factory’s medium-speed diesel engines has also increased. The severe escalation of power shortage in China has far exceeded the anticipation of the Company at the time when it estimated the relevant Existing Caps. As a result thereof, the orders for Weichai Factory’s power generators as well as Weichai Factory’s demand for the Company’s semi-finished diesel engine parts have increased tremendously. However, Weichai Factory anticipates that infrastructure investments in the power sector will increase power supply in the PRC and therefore the demand for its power generators will become steady in 2006, and therefore, Weichai Factory has taken a conservative view on its sales volume for 2005 and 2006, and hence the New Caps for 2005 and 2006 remain the same as that for 2004.

Since the New Caps for this Continuing Connected Transaction for each of the three years ending 31 December, 2006 (when aggregated with those New Caps for each of the corresponding periods under sections I(4) and I(6) above) exceed the 2.5% Threshold, they constitute Non-exempt Continuing Connected Transactions of the Company under Chapter 14A of the Listing Rules and will be subject to the reporting requirements set out in Rules 14A.45 and 14A.46, the announcement requirement in Rule 14A.47 (and the relevant announcement was released on 15 September, 2004) and the annual review requirements of Rules 14A.37 and 14A.38, and approval from the independent Shareholders (being Shareholders other than Weichai Factory and Tan Xuguang (who is the general manager of Weichai Factory), who will abstain from voting at the EGM in relation to the resolution to be proposed in respect of these New Caps, and no other Shareholders will be required to abstain from voting in relation thereto at the EGM) at the EGM will be required. Furthermore, since these Continuing Connected Transactions are Non-exempt Continuing Connected Transactions and are subject to independent Shareholders’ approval as aforesaid, the relevant Supplemental Agreement (which will extend the term of the original services agreement to 31 December, 2006) is conditional upon the said resolution being passed at the EGM. All the other terms of the original services agreement remain unchanged.

II. *Continuing connected transactions between the Company and Chongqing Weichai*

1. *Provision of general services by Chongqing Weichai to the Company*

<i>Agreement:</i>	1. General services agreement dated 17 November, 2003 (as amended) 2. Supplemental Agreement dated 15 September, 2004
<i>Parties:</i>	1. The Company 2. Chongqing Weichai
<i>Expiry date:</i>	31 December, 2006 (under the Supplemental Agreement)

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Other terms and details:

Pursuant to the general services agreement, Chongqing Weichai has agreed to provide certain general services to Chongqing Branch, namely, environmental protection, security, fire and other general services and the payment of certain town land use right tax in relation to the property used by Chongqing Branch for a term of three years with effect as from 1 July, 2003.

Under the general services agreement, the fees to be charged by Chongqing Weichai will be based on the costs incurred by it and apportioned on a pro-rata basis according to the area of the property occupied and/or used by Chongqing Branch (and/or its staff, if applicable) plus a service charge representing 20% of such costs (save that the town land use right tax paid by Chongqing Weichai on behalf of Chongqing Branch and its staff, if applicable, will not be subject to the said 20% service charge). The 20% service charge was determined by reference to the document issued by the Ministry of Finance on 21 December, 2001 regarding the accounting treatment of sales of goods between connected parties and also by reference to the gross profit margin of the Company.

With respect to certain public utilities provided by Chongqing Weichai to certain common area by both Chongqing Weichai and Chongqing Branch, the costs with respect to such public utilities incurred by Chongqing Weichai will be shared between Chongqing Weichai and Chongqing Branch pro-rated according to their respective annual sales.

Due to the heavy rain and flooding in Chongqing this year, the drainage system and some properties of Chongqing Weichai have been badly damaged and require substantial repairing. Costs of repair and maintenance work of Chongqing Weichai are therefore expected to increase significantly as a result of such unforeseen events. In addition, Chongqing Weichai estimates that its average annual salary growth rate will increase from 20% to 30% in 2005 and 2006 as a result of the economic boom in Chongqing. As such, the Company estimates that the service fees payable by the Company to Chongqing Weichai in respect of such general services for the three financial years ending 31 December, 2006 will not exceed RMB10 million, RMB13 million, and RMB16 million, respectively, and such amounts have accordingly been set as the New Caps for these Continuing Connected Transactions.

The table below summarises the Existing Caps and New Caps for the Continuing Connected Transactions set out in this sub-section for the three years ending 31 December, 2006.

	2004	2005	2006
	<i>RMB' million</i>		
Existing Cap	5	6	—
New Cap	10	13	16

Since the New Cap for this Continuing Connected Transaction for the year ending 31 December, 2006 (when aggregated with those New Caps for the same period under sections I(1) and I(2) above and II(2) below) exceeds the 2.5% Threshold, it constitutes a Non-exempt Continuing Connected Transaction of the

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Company under Chapter 14A of the Listing Rules and will be subject to the reporting requirements set out in Rules 14A.45 and 14A.46, the announcement requirement in Rule 14A.47 (and the relevant announcement was released on 15 September, 2004) and the annual review requirements of Rules 14A.37 and 14A.38, and approval from the independent Shareholders (being Shareholders other than Weichai Factory and Tan Xuguang (who is the general manager of Weichai Factory), who will abstain from voting at the EGM in relation to the resolution to be proposed in respect of this New Cap, and no other Shareholders will be required to abstain from voting in relation thereto at the EGM) at the EGM will be required. Furthermore, since this Continuing Connected Transaction is Non-exempt Continuing Connected Transaction and is subject to independent Shareholders' approval as aforesaid, the relevant Supplemental Agreement (which will extend the term of the original general services agreement to 31 December, 2006) is conditional upon the said resolution being passed at the EGM. All the other terms of the original general services agreement remain unchanged.

2. *Supply and/or connection of utilities by Chongqing Weichai to the Company*

Agreement: 1. Utility services agreement dated 17 November, 2003
 2. Supplemental Agreement dated 15 September, 2004

Parties: 1. The Company
 2. Chongqing Weichai

Expiry date: 31 December, 2006 (under the Supplemental Agreement)

Other terms and details:

Pursuant to the utility services agreement, Chongqing Weichai has agreed to provide or provide the connection of (as the case may be) the following utility and energy services to the Chongqing Branch, namely, water, electricity, natural gas, steam, oxygen, nitrogen and compressed air, etc. for a term of three years with effect as from 1 July, 2003.

Under the utility services agreement, the fees payable by the Company to Chongqing Weichai in respect of the relevant utility and energy services will be determined based on the usage thereof by the Chongqing Branch, or, if it is not possible to measure such usage, pro-rated according to the respective sales of Chongqing Weichai and the Chongqing Branch and by reference to the market prices of such utilities. If only government published rates are available with respect to certain utilities, the fees payable will be determined by reference to the government published rates plus the wastage, depreciation and repair expenses incurred by Chongqing Weichai in relation to the provision of the relevant utilities. If no market prices or government published rates with respect to any of the above utilities are available, the Company will pay the costs incurred by Chongqing Weichai in relation to the provision of the above utility and energy services plus a service charge representing 20% of such costs.

The Company estimates that the fees payable by the Company to Chongqing Weichai in respect of the utility and energy services mentioned above for the two years ending 31 December, 2005 will not exceed the Existing Caps, and that the

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amount payable for the year ending 31 December, 2006 will not exceed the Existing Cap for the year ending 31 December, 2005 (being RMB90 million), and such amount is set as the New Cap for the year ending 31 December, 2006.

The table below summarises the Existing Caps and New Cap for the Continuing Connected Transactions set out in this sub-section for the three years ending 31 December, 2006.

	2004	2005	2006
	<i>RMB' million</i>		
Existing Cap	65	90	—
New Cap	n/a	n/a	90

The Company estimates that the utility and energy services costs incurred by the Chongqing Branch in 2006 will remain the same as that of 2005, as the Company's new production facility (which is expected to become operational in 2005 (i) will not require the provision of utility and energy services by Chongqing Weichai, and (ii) will assume part of the production work of the Company's existing production facility.

Since the New Cap exceeds the 2.5% Threshold, these Continuing Connected Transactions for the year ending 31 December, 2006 constitute Non-exempt Continuing Connected Transactions of the Company under Chapter 14A of the Listing Rules and will be subject to the reporting requirements set out in Rules 14A.45 and 14A.46, the announcement requirement in Rule 14A.47 (and the relevant announcement was released on 15 September, 2004) and the annual review requirements of Rules 14A.37 and 14A.38 and approval from the independent Shareholders (being Shareholders other than Weichai Factory and Tan Xuguang (who is the general manager of Weichai Factory, being the controller of Chongqing Weichai), who will abstain from voting at the EGM in relation to the resolution to be proposed in respect of this New Cap) at the EGM will be required.

Furthermore, since these Continuing Connected Transactions are Non-exempt Continuing Connected Transactions and are subject to independent Shareholders' approval as aforesaid, the relevant Supplemental Agreement (which will extend the term of this utility services agreement to 31 December, 2006) is conditional upon the said resolution being passed at the EGM. All the other terms of the original utility services agreement remain unchanged.

3. *Lease of properties by Chongqing Weichai to the Company*

Agreement: Lease agreement dated 1 July, 2003

Parties: 1. The Company
2. Chongqing Weichai

Expiry date: 30 June, 2008 (but, at any time during the term of this agreement, the Company has the right to terminate this agreement)

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Other terms and details:

Pursuant to the lease agreement, Chongqing Weichai has agreed to lease to the Company, certain land and buildings situated thereon, at which the Chongqing Production Line is situated, for a term of 5 years effective as from 1 July, 2003 (and, at any time during the term of this agreement, the Company has the right to terminate this agreement) at an annual rental of RMB3,404,000, and RMB4 million has accordingly been set as the Existing Caps for this Continuing Connected Transaction. Since the same amount will continue to be payable for the year ending 31 December, 2006, such amount is set as the New Cap for the year ending 31 December, 2006.

The table below summarises the Existing Caps and New Cap for the Continuing Connected Transactions set out in this sub-section for the three years ending 31 December, 2006.

	2004	2005	2006
	<i>RMB' million</i>		
Existing Cap	4	4	—
New Cap	n/a	n/a	4

Since the New Cap does not exceed the 2.5% Threshold, these Continuing Connected Transactions constitute Exempt Continuing Connected Transactions of the Company under Chapter 14A of the Listing Rules and is subject to the reporting requirements set out in Rules 14A.45 and 14A.46, the announcement requirement in Rule 14A.47 (and the relevant announcement was released on 15 September, 2004) and the annual review requirements of Rules 14A.37 and 14A.38. The terms of this asset lease agreement remain unchanged.

4. *Provision of processing services by Chongqing Weichai to the Company*

Agreement:

1. Processing services agreement dated 17 November, 2003 (as amended)
2. Supplemental Agreement dated 15 September, 2004

Parties:

1. The Company
2. Chongqing Weichai

Expiry date: 31 December, 2006 (under the Supplemental Agreement)

Other terms and details:

Pursuant to the processing services agreement, Chongqing Weichai has agreed to provide processing services to the Chongqing Branch with respect to certain semi-finished diesel engine parts for a period of three years with effect as from 1 July, 2003. The service fees to be charged by Chongqing Weichai is based on the lower of (i) the costs in relation to the provision of such processing services incurred by Chongqing Weichai plus a service charge representing 20% of such costs; or (ii) the relevant market prices (if available). The 20% service charge was determined by

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reference to the document issued by the Ministry of Finance on 21 December, 2001 regarding the accounting treatment of sales of goods between connected parties and also by reference to the gross profit margin of the Company.

The Company estimates that the service fees payable by the Company to Chongqing Weichai in respect of such processing services for the two years ending 31 December, 2005 will not exceed the Existing Caps, and that the amount payable for the year ending 31 December, 2006 will not exceed the Existing Cap for the year ending 31 December, 2005 (being RMB164 million), and such amount is set as the New Cap for the year ending 31 December, 2006.

The table below summarises the Existing Caps and New Cap for the Continuing Connected Transactions set out in this sub-section for the three years ending 31 December, 2006.

	2004	2005	2006
	<i>RMB' million</i>		
Existing Cap	96	164	—
New Cap	n/a	n/a	164

The above caps were prepared by the Company primarily based on its estimate of the processing volume required by the Company, which is in turn a function of the production volume of the Company, and of the processing cost per kg which has been prepared based on the Company's estimate of its salary growth rate.

The Company estimates that the costs incurred in relation to the provision of processing services by Chongqing Weichai to the Company in 2006 will remain the same as that of 2005, as the Company's new production facility (which is expected to become operational in 2005) (i) will not require the provision of processing services by Chongqing Weichai, and (ii) will assume part of the production work of the Company's existing production facility.

Since the New Cap exceeds the 2.5% Threshold, these Continuing Connected Transactions for the year ending 31 December, 2006 constitute Non-exempt Continuing Connected Transactions of the Company under Chapter 14A of the Listing Rules and will be subject to the reporting requirements set out in Rules 14A.45 and 14A.46, the announcement requirement in Rule 14A.47 (and the relevant announcement was released on 15 September, 2004) and the annual review requirements of Rules 14A.37 and 14A.38, and approval from the independent Shareholders (being Shareholders other than Weichai Factory and Tan Xuguang (who is the general manager of Weichai Factory, being the controller of Chongqing Weichai), who will abstain from voting at the EGM in relation to the resolution to be proposed in respect of this New Cap, and no other Shareholders will be required to abstain from voting in relation thereto at the EGM) at the EGM will be required. Furthermore, since these Continuing Connected Transactions are Non-exempt Continuing Connected Transactions and are subject to independent Shareholders' approval as aforesaid, the relevant Supplemental Agreement (which will extend the term of this processing services agreement to 31 December, 2006) is conditional upon the said resolution being passed at the EGM. All the other terms of the original processing services agreement remain unchanged.

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III. *Continuing connected transactions between the Company and the China Heavy Duty Truck Group*

- Agreement:*
1. Two framework agreements both dated 21 October, 2003
 2. Two Supplemental Agreements both dated 15 September, 2004
- Parties:*
1. The Company
 2. 中國重型汽車集團濟南卡車有限公司
(China Heavy Duty Truck Group Jinan Truck Company Limited)
- Expiry date:* 31 December, 2006 (under the Supplemental Agreements)
- Other terms and details:*

The China Heavy Duty Truck Group (excluding the Weichai Factory group of companies and 杭州汽車發動機廠 (Hangzhou Motor Engine Factory)) is engaged in the businesses of, inter alia, manufacture and sale of coaches and heavy-duty vehicles and vehicle parts, certain of which require the diesel engines and certain finished diesel engine parts manufactured by the Company. CHDTGL is a PRC state-owned enterprise.

At the same time, the Company also purchased certain finished and semi-finished diesel engine parts manufactured by the China Heavy Duty Truck Group for the manufacture of the Company's the diesel engines.

Such transactions will be conducted on the basis of market prices and the Company has entered into the framework agreements with the relevant associate of CHDTGL in this regard.

The Company believes that due to the growing demand for heavy-duty vehicles in the PRC, the China Heavy Duty Truck Group has increased its purchase order for the Company's WD615 Engines, and in turn the Company will also need to increase its purchase of finished and semi-finished diesel engine parts from the China Heavy Duty Truck Group as a result of the increase in demand for WD615 Engines. As such, the Company estimates that the total consideration payable by the China Heavy Duty Truck Group to the Company for the Company's WD615 Engines for the three years ending 31 December, 2006 will not exceed RMB1,800 million, RMB2,600 million and RMB4,100 million, respectively; and the total consideration payable by the Company to the China Heavy Duty Truck Group for finished and semi-finished diesel engine parts for the three years ending 31 December, 2006 will not exceed RMB70 million, RMB110 million and RMB165 million, respectively, and such amounts have accordingly been set as the proposed New Caps for these Continuing Connected Transactions.

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The tables below summarise the Existing Caps and New Caps for the Continuing Connected Transactions set out in this sub-section for the three years ending 31 December, 2006.

	2004	2005	2006
	RMB'million		
<i>Supply of diesel engines and finished diesel engine parts by the Company to CHDTGL and/or its associates</i>			

Existing Cap	1,029	1,465	—
New Cap	1,800	2,600	4,100

	2004	2005	2006
	RMB'million		
<i>Supply of finished and semi-finished diesel engine parts by CHDTGL and/or associates to the Company</i>			

Existing Cap	37	45	—
New Cap	70	110	165

The above proposed New Caps have been prepared by the Company primarily based on (i) the estimate prepared by the China Heavy Duty Truck Group (which is contained in the Supplemental Agreement) as to the number of diesel engines required by it (representing an approximately 51% growth rate), the Company's estimate of the number of units of the diesel engines to be sold by the Company to the China Heavy Duty Truck Group, of the demand for the Company's Engines generally, of the diesel engine parts to be purchased by the Company, and of the average unit selling prices of those diesel engines and diesel engine parts; and (ii) the assumption that the amount of the diesel engine parts to be purchased by the Company is a function of its production volume of diesel engines and represented an approximately 54% growth rate.

The significant growth of the proposed New Caps is mainly attributable to (i) the growing demand for heavy-duty vehicles in the PRC, which in turn has led to an increase in the demand for the China Heavy Duty Truck Group's products, (ii) the estimated increase in demand for WD615 Engines by the China Heavy Duty Truck Group as mentioned above, and (iii) the Company's estimated increase in production volume of its WD615 Engines to not exceeding 130,000, 200,000 and 300,000 units of Engines for the three financial years ending 31 December, 2006.

Since the New Cap in respect of the purchase of diesel engine parts by the Company from the China Heavy Duty Truck Group for the year ending 31 December, 2004 does not exceed the 2.5% Threshold, this Continuing Connected Transaction constitutes Exempt Continuing Connected Transactions of the Company under Chapter 14A of the Listing Rules and is subject to the reporting requirements set out in Rules 14A.45 and 14A.46, the announcement requirement in Rule 14A.47 (and the relevant announcement was released on 15 September, 2004) and the annual review requirements of Rules 14A.37 and 14A.38.

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Furthermore, since this Continuing Connected Transaction (under the New Cap for the year ending 31 December, 2004) is Exempt Continuing Connected Transactions and is not subject to independent Shareholders' approval, the relevant Supplemental Agreement is unconditional in this respect.

Since the New Caps (other than the New Cap in respect of the purchase of diesel engine parts by the Company from the China Heavy Duty Truck Group for the year ending 31 December, 2004 as referred to above) exceed the 2.5% Threshold, these Continuing Connected Transactions for the three years ending 31 December, 2006 constitute Non-exempt Continuing Connected Transactions of the Company under Chapter 14A of the Listing Rules and will be subject to the reporting requirements set out in Rules 14A.45 and 14A.46, the announcement requirement in Rule 14A.47 (and the relevant announcement was released on 15 September, 2004) and the annual review requirements of Rules 14A.37 and 14A.38, and approval from the independent Shareholders (being Shareholders other than Weichai Factory and Tan Xuguang (who is the general manager of Weichai Factory), who will abstain from voting at the EGM in relation to the resolution to be proposed in respect of these New Caps, and no other Shareholders will be required to abstain from voting in relation thereto at the EGM) at the EGM will be required. Furthermore, since these Continuing Connected Transactions are Non-exempt Continuing Connected Transactions and are subject to independent Shareholders' approval as aforesaid, the relevant Supplemental Agreements (which will extend the term of this framework agreement to 31 December, 2006 and, with respect to the supply of diesel engines by the Company, will revise the estimated demand for the Company's products for the two years ending 31 December, 2005 as well as containing an estimate for the year ending 31 December, 2006) is conditional upon the said resolution being passed at the EGM. All the other terms of the original framework agreements remain unchanged.

IV. *Continuing connected transactions between the Company and Weichai Gas*

Agreement: 1. Framework agreement dated 21 October, 2003
 2. Supplemental Agreement dated 15 September, 2004

Parties: 1. The Company
 2. Weichai Gas

Expiry date: 31 December, 2006 (under the Supplemental Agreement)

Other terms and details:

Weichai Gas is engaged in the business of, inter alia, manufacture and sale of gas-propelled internal combustion engines and parts, certain of which incorporate the entire WD615 Engines, with modifications, into them. Such transactions will be conducted on the basis of market prices and the Company has entered into a framework agreement with Weichai Gas in this regard.

(Note: Weichai Gas is owned as to 50% by Weichai Factory and as to 50% by Peterson (CNG) Equipment Limited, which is indirectly owned as to 50% by Yeung Sai Hong, a non-executive Director, and as to 50% by Yeung Sai Hong's brother-in-law. Peterson is a Promoter and is directly and indirectly wholly owned by Yeung Sai Hong. Accordingly, Weichai Gas is a connected person of the Company.)

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Due to the growing demand for coaches in the PRC, Weichai Gas has increased its purchase order for WD615 Engines from the Company. As such, the Company estimates that the total purchase consideration payable by Weichai Gas to the Company for the three years ending 31 December, 2006 will not exceed RMB30 million, RMB70 million and RMB140 million, respectively, and such amounts have accordingly been set as the revised New Caps for these Continuing Connected Transactions. Such transactions will be conducted on the basis of market prices and the Company has entered into a framework agreement with Weichai Gas in this regard. The Company is a leading manufacturer of the diesel engines in the PRC with market shares in supplying heavy-duty vehicles with a load capacity of 15 tonnes (and above) and wheel-loaders with a load capacity of 5 tonnes (and above) of approximately 75% and 73%, respectively. This evidences the quality and competitiveness of the Company's Engines generally, and therefore the Company believes that Weichai Gas will continue to purchase the Company's Engines for the manufacture of its products.

The table below summarises the Existing Caps and New Caps for the Continuing Connected Transactions set out in this sub-section for the three years ending 31 December, 2006.

	2004	2005	2006
	<i>RMB' million</i>		
Existing Cap	6	10	—
New Cap	30	70	140

The above revised New Caps have been prepared by the Company primarily based on the estimate prepared by Weichai Gas (which is contained in the Supplemental Agreement) as to number of diesel engines required by it and the Company's estimate of the average unit prices of such diesel engines. The significant growth of the proposed New Caps is mainly attributable to the estimated increase in demand for WD615 Engines by Weichai Gas for 2004, and an increase of approximately 130% and 100% for 2005 and 2006, respectively.

Since the New Caps for the two years ending 31 December, 2005 do not exceed the 2.5% Threshold, these Continuing Connected Transactions constitute Exempt Continuing Connected Transactions of the Company under Chapter 14A of the Listing Rules and is subject to the reporting requirements set out in Rules 14A.45 and 14A.46, the announcement requirement in Rule 14A.47 (and the relevant announcement was released on 15 September, 2004) and the annual review requirements of Rules 14A.37 and 14A.38.

Furthermore, since these Continuing Connected Transactions (under the New Caps for the two years ending 31 December, 2005) are Exempt Continuing Connected Transactions and are not subject to independent Shareholders' approval, the relevant Supplemental Agreement is unconditional in this respect.

Since the New Cap for the year ending 31 December, 2006 exceeds the 2.5% Threshold, these Continuing Connected Transactions for the year ending 31 December, 2006 constitute Non-exempt Continuing Connected Transactions of the Company under Chapter 14A of the Listing Rules and will be subject to the reporting requirements set out in Rules 14A.45 and 14A.46, the announcement requirement in Rule 14A.47 (and the

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relevant announcement was released on 15 September, 2004) and the annual review requirements of Rules 14A.37 and 14A.38, and approval from the independent Shareholders (being Shareholders other than Weichai Factory, Tan Xuguang (who is the general manager of Weichai Factory) and Peterson (see note in this paragraph below for details), who will abstain from voting at the EGM in relation to the resolution to be proposed in respect of this New Cap, and no other Shareholders will be required to abstain from voting in relation thereto at the EGM) at the EGM will be required. Furthermore, since these Continuing Connected Transactions (under the New Cap for the year ending 31 December, 2006) are Non-exempt Continuing Connected Transactions and are subject to independent Shareholders' approval as aforesaid, the provision of the relevant Supplemental Agreement relating to this New Cap is conditional upon the said resolution being passed at the EGM. The relevant Supplemental Agreement will revise the estimated demand for the Company's products for the two years ending 31 December, 2005 as well as containing an estimate for the year ending 31 December, 2006. All the other terms of the original framework agreement remain unchanged.

V. Continuing connected transactions between the Company and Guangxi Liugong Machinery

Agreement: 1. Framework agreement dated 21 October, 2003
 2. Supplemental Agreement dated 15 September, 2004

Parties: 1. The Company
 2. Guangxi Liugong Machinery

Expiry date: 31 December, 2006 (under the Supplemental Agreement)

Other terms and details:

Guangxi Liugong Machinery is engaged in the manufacture and repair of construction machines, which require the WD615 Engines and parts manufactured by the Company. Such transactions will be conducted on the basis of market prices and the Company has entered into a framework agreement with Guangxi Liugong Machinery in this regard.

(Note: Guangxi Liugong Machinery is owned as to 63% by Guangxi Liugong, which is a Promoter, and, accordingly, Guangxi Liugong Machinery is an associate of Guangxi Liugong and, hence, a connected person of the Company.)

Due to the growing demand for construction machines in the PRC, Guangxi Liugong Machinery has increased its purchase order for WD615 Engines from the Company. On this basis, the Company estimates that the total consideration payable to the Company by Guangxi Liugong Machinery for such sales for the three years ending 31 December, 2006 will be approximately RMB400 million, RMB600 million and RMB710 million, respectively, and such amounts have accordingly been set as the proposed New Caps for these Continuing Connected Transactions.

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The table below summarises the Existing Caps and New Caps for the Continuing Connected Transactions set out in this sub-section for the three years ending 31 December, 2006.

	2004	2005	2006
	<i>RMB' million</i>		
Existing Cap	259	287	—
New Cap	400	600	710

The above revised New Caps have been prepared by the Company primarily based on the estimate prepared by Guangxi Liugong Machinery (which is contained in the Supplemental Agreement) as to number of diesel engines required by it from the Company and of the average unit prices of such diesel engines. The significant growth of the proposed New Caps is mainly attributable to the estimated increase in demand for WD615 Engines by Guangxi Liugong Machinery for 2004, and an approximately 50% and 20% increase for 2005 and 2006, respectively. The Company is a leading manufacturer of the diesel engines in the PRC with market shares in supplying heavy-duty vehicles with a load capacity of 15 tonnes (and above) and wheel-loaders with a load capacity of 5 tonnes (and above) of approximately 75% and 73%, respectively. This evidences the quality and competitiveness of the Company's Engines generally, and therefore the Company believes that Guangxi Liugong Machinery will continue to purchase the Company's Engines for the manufacture of its products.

Since the New Caps exceed the 2.5% Threshold, these Continuing Connected Transactions for the three years ending 31 December, 2006 constitute Non-exempt Continuing Connected Transactions of the Company under Chapter 14A of the Listing Rules and will be subject to the reporting requirements set out in Rules 14A.45 and 14A.46, the announcement requirement in Rule 14A.47 (and the relevant announcement was released on 15 September, 2004) and the annual review requirements of Rules 14A.37 and 14A.38, and approval from the independent Shareholders (being Shareholders other than Guangxi Liugong, who will abstain from voting at the EGM in relation to the resolution to be proposed in respect of these New Caps, and no other Shareholders will be required to abstain from voting in relation thereto at the EGM) at the EGM will be required. Furthermore, since these Continuing Connected Transactions are Non-exempt Continuing Connected Transactions and are subject to independent Shareholders' approval as aforesaid, the relevant Supplemental Agreement (which will extend the term of this framework agreement to 31 December, 2006 and will revise the estimated demand for the Company's products for the two years ending 31 December, 2005 as well as containing an estimate for the year ending 31 December, 2006) is conditional upon the said resolution being passed at the EGM. All the other terms of the original framework agreement remain unchanged.

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VI. *Continuing connected transactions between the Company and Fujian Longgong*

- Agreement:* 1. Framework agreement dated 21 October, 2003
 2. Supplemental Agreement dated 15 September, 2004
- Parties:* 1. The Company
 2. Fujian Longgong
- Expiry date:* 31 December, 2006 (under the Supplemental Agreement)

Other terms and details:

Fujian Longgong is engaged in the manufacture and sale of, among others, wheel-loaders, certain of which require the diesel engines and parts manufactured by the Company. Such transactions will be conducted on the basis of market prices and the Company has entered into a framework agreement with Fujian Longgong in this regard.

Due to the growing demand for wheel-loaders in the PRC, Fujian Longgong has increased its purchase order for WD615 Engines from the Company. On this basis, the Company estimates that the total purchase consideration payable to the Company by Fujian Longgong for each of the three years ending 31 December, 2006 will be approximately RMB105 million, RMB155 million and RMB185 million, respectively, and such amounts have accordingly been set as the proposed New Caps for these Continuing Connected Transactions.

The table below summarises the Existing Caps and New Caps for the Continuing Connected Transactions set out in this sub-section for the three years ending 31 December, 2006.

	2004	2005	2006
	<i>RMB'million</i>		
Existing Cap	76	76	—
New Cap	105	155	185

The above revised New Caps have been prepared by the Company primarily based on the estimate prepared by Fujian Longgong (which is contained in the Supplemental Agreement) as to number of diesel engines required by it for 2004, and an approximately 50% and 20% increase for 2005 and 2006, respectively (which, the Company believes, represents Fujian Longgong's anticipation of the growing demand for wheel-loaders in the PRC, and hence the increase in sales of Fujian Longgong's products and its demand for the Company's WD615 Engines), and the Company's estimate of the average unit prices of such diesel engines. The Company is a leading manufacturer of the diesel engines in the PRC with market shares in supplying heavy-duty vehicles with a load capacity of 15 tonnes (and above) and wheel-loaders with a load capacity of 5 tonnes (and above) of approximately 75% and 73%, respectively. This evidences the quality and competitiveness of the Company's Engines generally, and therefore the Company believes that Fujian Longgong will continue to purchase the Company's Engines for the manufacture of its products.

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Since the New Caps exceed the 2.5% Threshold, these Continuing Connected Transactions for the three years ending 31 December, 2006 constitute Non-exempt Continuing Connected Transactions of the Company under Chapter 14A of the Listing Rules and will be subject to the reporting requirements set out in Rules 14A.45 and 14A.46, the announcement requirement in Rule 14A.47 (and the relevant announcement was released on 15 September, 2004) and the annual review requirements of Rules 14A.37 and 14A.38, and approval from the independent Shareholders (being Shareholders other than Fujian Longgong, who will abstain from voting at the EGM in relation to the resolution to be proposed in respect of these New Caps, and no other Shareholders will be required to abstain from voting in relation thereto at the EGM) at the EGM will be required. Furthermore, since these Continuing Connected Transactions are Non-exempt Continuing Connected Transactions and are subject to independent Shareholders' approval as aforesaid, the relevant Supplemental Agreement (which will extend the term of this framework agreement to 31 December, 2006 and will revise the estimated demand for the Company's products for the two years ending 31 December, 2005 as well as containing an estimate for the year ending 31 December, 2006) is conditional upon the said resolution being passed at the EGM. All the other terms of the original framework agreement remain unchanged.

VII. Continuing connected transactions between the Company and Shanghai Longgong

Agreement: 1. Framework agreement dated 21 October, 2003
 2. Supplemental Agreement dated 15 September, 2004

Parties: 1. The Company
 2. Shanghai Longgong

Expiry date: 31 December, 2006 (under the Supplemental Agreement)

Other terms and details:

Shanghai Longgong is engaged in the manufacture and sale of, among others, construction machines, certain of which require the diesel engines and parts manufactured by the Company. Such transactions will be conducted on the basis of market prices and the Company has entered into a framework agreement with Shanghai Longgong in this regard.

(Note: Shanghai Longgong is owned as to 39.49% by Li San Yim, a non-executive Director, and as to 60.51% by Ni Yinying, Li San Yim's wife. Li San Yim and Ni Yinying are also interested in 69.16% and 30.84% respectively of the registered capital of Fujian Longgong, being one of the Promoters. Thus Shanghai Longgong is an associate of Li San Yim and, hence, a connected person of the Company.)

Due to the growing demand for construction machines in the PRC, Shanghai Longgong has increased its purchase order for WD615 Engines from the Company. On this basis, the Company estimates that the total purchase consideration payable to the Company by Shanghai Longgong for each of the three years ending 31 December, 2006 will be approximately RMB315 million, RMB470 million and RMB555 million, respectively, and such amounts have accordingly been set as the proposed New Caps for these Continuing Connected Transactions.

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The table below summarises the Existing Caps and New Caps for the Continuing Connected Transactions set out in this sub-section for the three years ending 31 December, 2006.

	2004	2005	2006
	<i>RMB' million</i>		
Existing Cap	198	199	—
New Cap	315	470	555

The above proposed New Caps have been prepared by the Company primarily based on the estimate prepared by Shanghai Longgong (which is contained in the Supplemental Agreement) as to number of diesel engines required by it for 2004, and an approximately 50% and 20% increase for 2005 and 2006, respectively, and the Company's estimate of the average unit prices of those diesel engines. The Company is a leading manufacturer of the diesel engines in the PRC with market shares in supplying heavy-duty vehicles with a load capacity of 15 tonnes (and above) and wheel-loaders with a load capacity of 5 tonnes (and above) of approximately 75% and 73%, respectively. This evidences the quality and competitiveness of the Company's Engines generally, and therefore the Company believes that Shanghai Longgong will continue to purchase the Company's Engines for the manufacture of its products.

Since the New Caps exceed the 2.5% Threshold, these Continuing Connected Transactions for the three years ending 31 December, 2006 constitute Non-exempt Continuing Connected Transactions of the Company under Chapter 14A of the Listing Rules and will be subject to the reporting requirements set out in Rules 14A.45 and 14A.46, the announcement requirement in Rule 14A.47 (and the relevant announcement was released on 15 September, 2004) and the annual review requirements of Rules 14A.37 and 14A.38, and approval from the independent Shareholders (being Shareholders other than Fujian Longgong, who will abstain from voting at the EGM in relation to the resolution to be proposed in respect of these New Caps, and no other Shareholders will be required to abstain from voting in relation thereto at the EGM) at the EGM will be required. Furthermore, since these Continuing Connected Transactions are Non-exempt Continuing Connected Transactions and are subject to independent Shareholders' approval as aforesaid, the relevant Supplemental Agreement (which will extend the term of this framework agreement to 31 December, 2006 and will revise the estimated demand for the Company's products for the two years ending 31 December, 2005 as well as containing an estimate for the year ending 31 December, 2006) is conditional upon the said resolution being passed at the EGM. All the other terms of the original framework agreement remain unchanged.

VIII. *Continuing connected transactions between the Company and Weichai Deutz*

<i>Agreement:</i>	1. Master sales agreement dated 21 October, 2003 2. Supplemental Agreement dated 15 September, 2004
<i>Parties:</i>	1. The Company 2. Weichai Deutz
<i>Expiry date:</i>	31 December, 2006 (under the Supplemental Agreement)

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Other terms and details:

Weichai Deutz is engaged in, inter alia, the manufacture and sale of 226B series of diesel engines and parts, certain of which require semi-finished diesel engine parts provided by the Company.

(Note: Weichai Deutz is owned as to 50% by Weichai Factory (a Promoter) and, accordingly, Weichai Deutz is an associate of Weichai Factory and, hence, a connected person of the Company. The other 50% interest in Weichai Deutz is held by Deutz AG, which is an internationally renowned manufacturer of diesel and gas engines. Deutz AG is independent of and is not connected with any Director or substantial shareholder of the Company or an associate of any of them.)

Pursuant to the master sales agreement, Weichai Deutz has agreed that for a period of three years with effect as from 1 July, 2003, with respect to any purchases of semi-finished diesel engine parts from the Company for its 226B series of diesel engines, such purchases will be made at a consideration based on the costs incurred by the Company in relation to the provision of the semi-finished diesel engine parts plus a service charge not exceeding 20% of such costs, but will not be less than the relevant market prices, if any (provided it is permitted by the relevant laws and regulations in the PRC to do so).

It is expected that the total purchase consideration payable by Weichai Deutz to the Company for the two years ending 31 December, 2005 will not exceed the Existing Caps, and that the amount payable for the year ending 31 December, 2006 will not exceed the Existing Cap for the year ending 31 December, 2006, and such amount is set as the New Cap for the year ending 31 December, 2006.

The table below summarises the Existing Caps and New Cap for the Continuing Connected Transactions set out in this sub-section for the three years ending 31 December, 2006.

	2004	2005	2006
	<i>RMB' million</i>		
Existing Cap	24	55	—
New Cap	n/a	n/a	55

The above New Cap has been prepared by the Company primarily based on its estimate of the production volume of Weichai Deutz's 226B series diesel engines, of the increase in demand for 226B series diesel engine part by Weichai Deutz, which in turn was based on the production volume estimated by Weichai Deutz, and of the average unit prices of those semi-finished diesel engine parts to be charged by the Company.

Since the New Cap does not exceed the 2.5 Threshold, this Continuing Connected Transaction constitute Exempt Continuing Connected Transaction of the Company under Chapter 14A of the Listing Rules and is subject to the reporting requirements set out in Rules 14A.45 and 14A.46, the announcement requirement in Rule 14A.47 (and the relevant announcement was released on 15 September, 2004) and the annual review requirements of Rules 14A.37 and 14A.38. The Supplemental Agreement extends the term of the master sales agreement to 31 December, 2006 and provides an estimated demand for the year ending 31 December, 2006. The other terms of the master sales agreement remain unchanged.

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E. Listing Rules requirements

The Company is principally engaged in the manufacture and sale of WD615 Engines and WD618 Engines. The Company believes that the above Continuing Connected Transactions are fair and reasonable as far as the shareholders of the Company are concerned. With respect to the Exempt Continuing Connected Transactions, the independent non-executive Directors are of the view that, since such transactions will be entered into on normal commercial terms and in the ordinary and usual course of business of the Company, they are fair and reasonable in so far as the Company as a whole is concerned.

The Existing Caps, for so long as they have not been superseded by any New Caps, remain valid and the Company will comply with the conditions stated in the Prospectus in relation thereto.

Since certain of the New Caps (in respect of any one or more of the three years ending 31 December, 2006) referred to in the above section exceed the 2.5% Threshold, the Continuing Connected Transactions concerning such New Caps constitute Non-exempt Continuing Connected Transactions of the Company under Chapter 14A of the Listing Rules and will be subject to the prior approval of the independent Shareholders (as mentioned above) at the EGM to be convened in relation to the resolution to be proposed in respect of each such New Cap, and the reporting requirements set out in Rules 14A.45 and 14A.46 for disclosure of details in the Company's annual reports and accounts, as well as annual review by the independent non-executive Directors under Rule 14A.37 and by the Company's auditors under Rule 14A.38.

If any of the Continuing Connected Transactions Agreements (as amended by their related Supplemental Agreements) concerning the Non-exempt Continuing Connected Transactions is renewed or if there is a material change to the terms of any of them, or if any of the New Caps for such Non-exempt Continuing Connected Transactions is exceeded, the Company must re-comply with Rules 14A.35(3) and (4).

F. Proposed appointment of independent non-executive Director

In order to comply with the requirement of Rule 3.10(1) that each listed issuer must have at least three independent non-executive directors, the Board proposes to appoint Mr. Fang Zhong Chang (房忠昌) as independent non-executive Director.

Mr. Fang Zhong Chang (房忠昌先生), aged 62, was 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 (濰坊市委常委市紀委書記), 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). He retired from civil service in 2002.

As at the Latest Practicable Date, Mr. Fang did not have any interest in the shares of the Company within the meaning of Part XV of the SFO. Mr. Fang had confirmed that, as at the Latest Practicable Date, he was not related to the other Directors, or the senior management or the substantial shareholders of the Company. The Company has not entered and does not propose to enter into any service contract with Mr. Fang (excluding contracts expiring or determinable by the Company within one year without payment of compensation (other than statutory compensation)) in relation to his proposed appointment as an independent non-executive Director. It is proposed that

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Mr. Fang's appointment as independent non-executive Director will take effect as from the time of the conclusion of the EGM for a period up to and including the date of the annual general meeting of the Company for the financial year ending 31 December, 2004.

G. Change of registered address

As stated in the Prospectus, part of the proceeds of the Offering would be applied towards the establishment of an additional production line (including machinery, equipment and premises) for the production of WD615 and WD618 Engines. The said production facility, located at 中國山東省濰坊市高新技術產業開發區福壽東街甲197號(郵政編碼: 261061) (197, Section A, Fu Shou East Street, High Technology Industrial Development Zone, Weifang City, Shandong Province, the PRC (Postal Code: 261061)) (being the New Address), which is situated in the same city (namely, Weifang City) where the existing headquarters of the Company are situated, is expected to commence production in the second quarter of 2005. Accordingly, the Company proposes to change its registered address to the New Address.

H. Recommendations

As the Continuing Connected Transactions have been, and will continue to be, conducted in the ordinary and usual course of the business of the Company and on normal commercial terms, and for the reasons set out above, the Directors are of the view that the Continuing Connected Transactions are fair and reasonable insofar as the Company (as a whole) is concerned, and would recommend that the Independent Shareholders should vote in favour of the resolutions to be proposed at the EGM to approve the New Caps for the Non-exempt Continuing Connected Transactions.

An Independent Board Committee comprising the independent non-executive Directors (namely, Mr. Zhang Xiaoyu and Mr. Koo Fook Sun, Louis) has been appointed to consider the respective New Caps in relation to the Non-exempt Continuing Connected Transactions. The Independent Financial Adviser has been appointed to advise the Independent Board Committee and the Independent Shareholders on the fairness and reasonableness of the said New Caps in relation to the Non-exempt Continuing Connected Transactions. Your attention is drawn to (i) the letter setting out the advice from the Independent Board Committee to the Independent Shareholders, and (ii) the letter of advice from the Independent Financial Adviser setting out its advice to the Independent Board Committee and the Independent Shareholders in relation to the New Caps for the Non-exempt Continuing Connected Transactions contained in this circular.

The Directors also recommend that you vote at the EGM to approve the appointment of Mr. Fang Zhong Chang (房忠昌) as independent non-executive Director and the change of the registered address of the Company to the New Address.

I. EGM

A notice convening the EGM to be held at 26 Minsheng East Street, Weifang, Shandong Province, the People's Republic of China, at 10:00 a.m. on Wednesday, 15 December, 2004 is set out in this circular. At the EGM, resolutions will be proposed for the Independent Shareholder to consider, and if thought fit, to approve the New Caps for the Non-exempt Continuing Connected Transactions, and for the Shareholders to approve the appointment of Mr. Fang Zhong Chang (房忠昌) as independent non-executive Director and the change of the registered address of the Company to the New Address.

LETTER FROM THE BOARD

Enclosed with this circular is a reply slip and a form of proxy for use at that meeting. If you intend to attend the EGM, please complete and return the enclosed reply slip in accordance with the instructions printed thereon as soon as possible and in any event by no later than 25 November, 2004 (Thursday).

Whether or not you intend to be present at the EGM, you are requested to complete the form of proxy and return it to the Company in accordance with the instructions printed thereon and in the notice of the EGM and this circular. The completion of a form of proxy and returning it to the Company will not preclude you from attending and voting in person at the meeting.

J. Closure of registers of Shareholders

The registers of shareholders of the Company will be closed from 15 November, 2004 (Monday) to 15 December, 2004 (Wednesday) (both days inclusive) during which no transfer of share will be registered. In order to qualify to vote at the EGM, all transfers of H Shares, accompanied by the relevant share certificates, must be lodged with the Company's Hong Kong registrar, Computershare Hong Kong Investor Services Limited at Shops 1712–1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong, not later than 4:00 p.m. on 12 November, 2004 (Friday).

K. Procedures for demanding a poll at the EGM

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

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

However, pursuant to Rule 14.52 of the Listing Rules, the approval to be sought from the Independent Shareholders at the EGM must be taken by poll at the EGM.

Yours faithfully,
For and on behalf of
the Board of Directors
Tan Xuguang
Chairman and Chief Executive Officer



WEICHAI

潍柴动力股份有限公司

WEICHAI POWER CO., LTD.

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

(Stock Code: 2338)

27 October, 2004

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

Dear Sir or Madam,

**NEW CAPS FOR NON-EXEMPT
CONTINUING CONNECTED TRANSACTIONS**

We have been appointed as members of the Independent Board Committee to advise the Independent Shareholders of Weichai Power Co., Ltd. in respect of the New Caps for the Non-exempt Continuing Connected Transactions, details of which are set out in the “Letter from the Board” contained in the circular of the Company (the “**Circular**”) of which this letter forms part. Unless the context otherwise requires, terms defined in the Circular shall have the same meanings when used in this letter.

Your attention is drawn to the “Letter from the Board”, the advice of Independent Financial Adviser in its capacity as the independent financial adviser to the Independent Board Committee in respect of the New Caps for the None-exempt Continuing Connected Transactions as set out in the “Letter from Independent Financial Adviser” as well as other additional information set out in other parts of the Circular.

Having taken into account the advice of, and the principal factors and reasons considered by the Independent Financial Adviser in relation thereto as stated in its letter, we consider the New Caps for the Non-exempt Continuing Connected Transactions to be fair and reasonable so far as the interests of the Shareholders as a whole are concerned. We therefore recommend that you vote in favour of the ordinary resolutions to be proposed at the EGM to approve the New Caps for the Non-exempt Continuing Connected Transactions.

Yours faithfully,
The Independent Board Committee

Zhang Xiaoyu	Koo Fook Sun, Louis
<i>Independent</i>	<i>Independent</i>
<i>non-executive Director</i>	<i>non-executive Director</i>

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

The following is the text of the letter to the Independent Board Committee and the Independent Shareholders from the Independent Financial Adviser prepared for the purpose of incorporation into this circular.



博資財務顧問有限公司
AMS Corporate Finance Limited

20th Floor
Hong Kong Diamond Exchange Building
8–10 Duddell Street
Central, Hong Kong

27 October, 2004

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

Dear Sirs,

NEW CAPS FOR NON-EXEMPT CONTINUING CONNECTED TRANSACTIONS

INTRODUCTION

We refer to our appointment as the independent financial adviser to the Independent Board Committee and the independent shareholders of the Company in respect of the relevant New Caps for the Non-exempt Continuing Connected Transactions, details of which are set out in the circular to the Shareholders dated 27 October, 2004 (the “Circular”), of which this letter forms part. This letter contains our advice to the Independent Board Committee and the independent shareholders of the Company in respect of the relevant New Caps for the Non-exempt Continuing Connected Transactions. Unless the context otherwise requires, terms used in this letter have the same meanings as those defined in the Circular.

The Board announced on 15 September, 2004 that the Company has entered into the Supplemental Agreements with various connected persons (as defined under the Listing Rules) of the Company which include, among others, Weichai Factory, Chongqing Weichai, China Heavy Duty Truck Group, Weichai Gas, Guangxi Liugong Machinery, Fujian Longgong and Shanghai Longgong (the “Connected Persons”). Certain New Caps under 15 of the Supplemental Agreements exceed the 2.5% Threshold and are required to be subject to, among others, the approval of the independent shareholders at a general meeting of the Company pursuant to Chapter 14A of the Listing Rules. Accordingly, we have been appointed to advise the Independent Board Committee and the independent shareholders of the Company as to whether or not the relevant New Caps for the Non-exempt Continuing Connected Transactions are fair and reasonable.

In formulating our opinion, we have relied on the statements, information, opinions and representations contained in the Circular and the information and representations provided to us by the Company and the Directors. In particular, we were advised by the Directors that the unaudited financial information for the six months ended 30 June, 2004 have been reviewed by the auditors of the Company. We have assumed that all information, representations and opinions contained or referred to in the Circular which have been provided by the Directors and for which they are solely

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

responsible, are true and accurate at the time they were given and continue to be so at the date hereof. We consider that we have reviewed sufficient information which enables us to form a reasonable basis for our opinion. We have no reason to suspect that any relevant information has been withheld, nor are we aware of any facts or circumstances which would render the information provided and the representations made to us untrue, inaccurate or misleading. The Directors have further confirmed, having made all reasonable enquiries, that to the best of their knowledge and belief, there are no other facts or representations the omission of which would make any statement in the Circular, including this letter, misleading. We have not, however, conducted any independent verification of the information provided, nor have we carried out any in-depth investigation into the business and affairs of the Company and the Connected Persons.

PRINCIPAL FACTORS CONSIDERED

In formulating our opinion regarding the proposed New Caps for each of the Non-exempt Continuing Connected Transactions, we have taken into consideration the following principal factors:

1. Background information

(a) *Overview of the products of the Company*

The Company is a major diesel engine manufacturer in the PRC specialising in the manufacture of high-speed heavy-duty diesel engines. The products of the Company are WD615 and WD618 Engines.

The Company's WD615 Engines are high-speed heavy-duty diesel engines with standard speed ranging from 1,500 to 2,600 round per minute, output in the range of 110 kiloWatt ("kW") to 266kW, exhaust emission meeting the Euro II emission standards, and a minimum fuel consumption at 194g/kW per hour ("kWh"). Euro I emission standards are a set of standards that limits the emission of carbon monoxide at 4.5g/kWh, hydrocarbons at 1.1g/kWh, nitrogen oxides at 8.0g/kWh, and particulate matters at 0.36g/kWh. Euro II emission standards are more stringent set of standards as compared to Euro I emission standards. Euro II emission standards limit the emission of carbon monoxide at 4.0g/kWh, hydrocarbons at 1.1g/kWh, nitrogen oxides at 7.0g/kWh, and particulate matters at 0.15g/kWh. The Company presently manufactures four series of WD615 Engines, all of which comply with the Euro II emission standards:

- (i) vehicle engines (for heavy-duty vehicles, such as 15-tonne trucks, 15-tonne (or above) tractors and 12-metre coaches);
- (ii) construction machine engines (for 5-tonne wheel-loaders, 160-horsepower bulldozers and 18-tonne vibration rollers);
- (iii) vessel engines (for use in trawlers, cargo vessels and yachts); and
- (iv) power generator engines (for use in power generators of less than 200kW for backup power supply or high-frequency aviation power supply) which can be integrated with different power generation units to operate as land-based or vessel-based power generators.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

The Company's WD618 Engines are a new series of diesel engines developed based on the WD615 Engines, with larger displacement of 11.596 litres. In addition to having those special features of the WD615 Engines as mentioned above, the WD618 Engines can generate a higher output in the range of 265kW to 312kW. The WD618 Engines also comply with the Euro II Standards with minimum fuel consumption at 198g/kWh. The applications of the WD618 Engines are basically the same as those of the WD615 Engines.

(b) *Uses of the WD615 Engines and WD618 Engines*

Diesel engine manufacturing is a very large industry with a diverse range of engines, which are characterized based on their end-products/applications. A breakdown of the Company's unit sales by applications for each of the three years ended 31 December, 2001, 2002 and 2003 and the six months ended 30 June, 2004 is as follows:

	For the year ended 31 December,						For the six months ended 30 June,	
	2001		2002		2003		2004	
	Units		Units		Units		Units	
	(audited)	%	(audited)	%	(audited)	%	(unaudited)	%
Applications								
Heavy-duty vehicles	9,886	50.3	22,955	53.2	40,286	50.1	33,853	52.8
Construction machines	8,783	44.7	18,772	43.5	37,945	47.1	28,520	44.5
Vessels	668	3.4	1,188	2.7	1,094	1.4	735	1.1
Coaches	—	—	18	—	671	0.8	502	0.8
Power generators	294	1.5	256	0.6	487	0.6	520	0.8
Others	28	0.1	—	—	—	—	—	—
Total	<u>19,659</u>	<u>100</u>	<u>43,189</u>	<u>100</u>	<u>80,483</u>	<u>100</u>	<u>64,130</u>	<u>100</u>

As shown in the above table, for the three years ended 31 December, 2003 and the six months ended 30 June, 2004, over 90% of the Company's turnover was derived from the manufacture and sale of diesel engines and relevant parts for use in heavy-duty vehicles and construction machines. We also notice that the sales of the Company's Engines for use in vehicles (including heavy-duty vehicles and coaches), construction machines and power generators for the year ended 31 December, 2003 had all showed significant growth of approximately 78%, 102% and 90%, respectively from that of the previous year.

As stated in the Prospectus and the latest interim report of the Company, the PRC Government stipulates that all new vehicles must comply with the Euro II emission standards as from September 2004. The Company's WD615 Engines and WD618 Engines met the Euro I emission standards in 2001 and the Euro II emission standards in 2002 and 2003, respectively. As stated in the Company's latest interim report, the Directors believe that the development of environmentally friendly heavy-duty diesel engines will be a major trend of the PRC's diesel engine industry.

(c) *Overview of the heavy-duty vehicles industry in China*

The Directors consider that there is currently an unsatisfied demand for high-speed heavy-duty diesel engines in the PRC. The tenth Five-year (2001–2005) State Plans of the PRC has made high-tonnage heavy-duty vehicles of 220kW (or above) a strategic focus for the development of the PRC's automobile industry. It is evidenced from the above table that the Company's sales of Engines for use in heavy-duty vehicles for the year ended 31 December, 2003 showed an increase of approximately 75% from the year ended 31 December, 2002. In addition, the unit sales derived from such segment for the six months ended 30 June, 2004 accounted for approximately 84% of the total unit sales from such segment for the whole year of 2003.

According to China Vehicle Newspaper (中國汽車報) dated 13 January, 2004 and China Industry Newspaper (中國工業報) dated 9 February, 2004, the Company's products had an approximately 71.3% share in the market for the new heavy-duty vehicles with load capacity of 15 tonnes (or above) in the PRC in 2003.

As stated in the Company's latest interim report, medium to heavy-duty trucks in the PRC are frequently overloaded because the toll charges for smaller trucks are comparatively lower. The PRC government is cracking down hard on the widespread practice of truck overloading. This has stimulated the demand for heavy-duty vehicles with load capacity of 15 tonnes or above and also quickened the pace of truck-capacity upgrading in the PRC. 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 (or above) trucks in the coming year.

According to the news released by China News Service (中國新聞社) on 23 August, 2004, as the PRC government is imposing more severe treatment and restrictions to truck overloading, more transportation companies have been inclined to upgrade their existing medium-duty trucks to heavy-duty vehicles. In addition, the major infrastructure projects, such as the Three Gorges Dam Project, the West-East Pipeline Projects, the 2008 Beijing Olympic Game Project and the 2010 Expo hosted by Shanghai, will also boost the demand of heavy-duty vehicles. In view of the above, we concur with the Directors' view that the market demand for heavy-duty vehicles will continue to be promising which will in turn drive the demand for heavy-duty diesel engines used in the production of these vehicles.

(d) *Overview of the market for the construction machines in China*

In addition to being used in heavy-duty vehicles, the Company's products are also widely used in construction machines, which include wheel-loaders, bulldozers and road-rollers. It is evidenced from the above table that construction machines, being the second-most important market of the Company, is also showing strong growth in recent years. The unit sales of Engines for use in the construction machines for the year ended 31 December, 2003 showed an increase of approximately 102% from the year ended 31 December, 2002. In addition, the unit sales derived from such segment for the six months ended 30 June, 2004 represented approximately 75% of the total unit sales derived from such segment for the whole year ended 31 December, 2003.

According to China Industry Newspaper dated 9 February, 2004 (中國工業報), in 2003, the Company's products had a market share of approximately 73% of the new wheel-loaders with load capacity of 5 tonnes (or above) sold in the PRC.

Based on the 2004 second quarter China Construction Machinery Industry Analysis Report (2004年2季度中國工程機械行業分析報告), the total production output of the Chinese construction machinery industry has shown an annual average increase of 11% since 2000. In the first six months of 2004, the total production output of construction machines in China amounted to RMB34,647,000,000, representing an increase of approximately 27.52% over that for the corresponding period in 2003. The total value of sales of construction machines in China amounted to approximately RMB34,206,000,000, representing an increase of approximately 29% over that for the same period in 2003.

In view of the historical growth in the demand for construction machines in China and as we believe that the major infrastructure projects, such as the Three Gorges Dam Project, the West-East Pipeline Projects, the 2008 Beijing Olympic Game Project and the 2010 Expo hosted by Shanghai, will also boost the overall demand for construction machines in China, we are of the view that the market demand for construction machines will continue to be promising which will in turn drive the demand for the diesel engines used in the production of these construction machines.

(e) Annual production capacity

It is noted from the above table that the Company has an annual output of 19,659 units, 43,189 units and 80,483 units of Engines for each of the three years ended 31 December, 2003, representing an annual compound growth rate of approximately 102%. In the first half of 2004, the Company manufactured an aggregate of 64,130 units of Engines which represented approximately 80% of the Company's production for the whole year in 2003. The Company currently carries out all of its production under the Weichai Production Line and Chongchai Production Line. According to the Directors' estimation, the maximum annual production capacity of the Company for each of the three years ending 31 December, 2004, 2005 and 2006 will amount to 130,000 units, 200,000 units and 300,000 units respectively. As advised by the Directors, the increase of approximately 50% in the aggregate annual production output of the Weichai Production Line and Chongchai Production Line in each of the three years ending 31 December, 2006 was attributable to the enhancement of production efficiency as a result of continuous training of the labour and constant adjustment and refinement of workflow and production process.

We notice from the Prospectus that approximately RMB80 million out of the net proceeds from the Company's initial public offerings of Shares in February 2004 was intended to be used for the modification of the existing Weichai Production Line, including the processing, assembly and testing lines. In addition, it was also stated in the Prospectus that approximately RMB420 million out of the net proceeds from the Company's initial public offerings of Shares was intended to be used for the establishment of an additional production line (including machinery, equipment and premises) for the production of Engines. As advised by the Directors, the trial run of such production line is expected to commence in late 2004 with full operation due to start in the second quarter of 2005. The Directors currently expect that the addition of such production line will eventually increase the annual production capacity of the Company by 70,000 units for the year ending 31 December, 2005.

It was also disclosed in the Prospectus that on 18 November, 2003, CHDTGL undertook to the Company that, among others, for so long as a member of the China Heavy Duty Truck Group holds shares of the Company, CHDTGL granted the Company the first right of refusal to acquire part of or all the shareholding, capital contribution and/or operating assets of (杭州汽車發動機廠) Hanzhou Motor Engine Factory ("Hangqi"). Hangqi, which is wholly-

owned by CHDTGL, is principally engaged in the manufacture of X6130, WD615 and WD612 series diesel engines, which are mainly used in heavy-duty trucks, large, medium and small-sized coaches/passenger cars, power generators and vessels. According to an announcement dated 27 September, 2004, the Company has entered into a framework agreement with CHDTGL, under which CHDTGL permits the Company to conduct due diligence in relation to Hangqi, and grant an exclusive right to the Company to acquire the assets of Hangqi. The Company will decide whether or not to proceed to purchase any assets of Hangqi after it has completed the due diligence on Hangqi. As advised by the Directors, should the Company acquire the business of Hangqi, the Company's annual production capacity for the Engines can reach 300,000 units in 2006.

In view of the above, the Directors expect that the Company's production capacity will be increased in the years 2004 to 2006 to meet the growing demand for the Engines, including those under the relevant Continuing Connected Transactions.

(f) *Relationship with the Connected Persons*

(i) *Weichai Factory*

Weichai Factory is a substantial shareholder of the Company, holding approximately 23.53% of the entire issued share capital of the Company. Weichai Factory manufactures the following diesel engines:

- 6160A series and 170Z series, which are medium speed diesel engines mainly used in fishing boats and power generators of 200kW (or above); and
- R and 95 series diesel engines, which are mainly used in agricultural and related machines.

None of these series of diesel engines are high-speed heavy-duty diesel engines, and they cannot be used in heavy-duty vehicles with load capacity of 15 tonnes (or above) or heavy-duty construction machines, which are the key markets for the Company's Engines as stated in the paragraph headed "Overview of the products of the Company" above.

(ii) *Chongqing Weichai*

Chongqing Weichai is wholly-owned by Weichai Factory. In 2003, the Company acquired certain production equipment from Chongqing Weichai forming the Company's own production line located at its premises in Chongqing, situated at the same location of Chongqing Weichai, for the manufacture of WD615 Engines.

(iii) *The China Heavy Duty Truck Group*

Weichai Factory, which is a substantial shareholder of the Company, is wholly-owned by CHDTGL, a PRC state-owned enterprise. The China Heavy Duty Truck Group (excluding the Weichai Factory group of companies and Hangqi) is engaged in, among others, the manufacture and sale of coaches, heavy-duty vehicles and vehicle parts, certain of which require the diesel engines and certain finished diesel engine parts manufactured by the Company.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

(iv) *Weichai Gas*

Weichai Gas is owned as to 50% by Weichai Factory, a substantial shareholder of the Company. It is engaged in the business of, among others, manufacture and sale of gas-propelled internal combustion engines and parts, certain of which incorporate the entire WD615 Engines, with modifications, into them.

(v) *Guangxi Liugong Machinery*

Guangxi Liugong Machinery is owned as to 63% by Guangxi Liugong, which is a Promoter. It is engaged in the manufacture and repair of construction machines, which require WD615 Engines and parts manufactured by the Company.

(vi) *Fujian Longgong*

Fujian Longgong is a Promoter and is engaged in the manufacture and sale of, among others, wheel-loaders, certain of which require the diesel engines and parts manufactured by the Company.

(vii) *Shanghai Longgong*

Shanghai Longgong is owned as to 39.49% by Li San Yim, a non-executive Director. It is engaged in the manufacture and sale of, among others, construction machines, certain of which require the diesel engines and parts manufactured by the Company.

By virtue of the relationship between the Company and each of Weichai Factory, Chongqing Weichai, the China Heavy Duty Truck Group, Weichai Gas, Guangxi Liugong Machinery, Fujian Longgong and Shanghai Longgong described above, these parties are considered connected persons under the Listing Rules and the transactions between the Company and each of them constitute connected transactions.

(g) *Operating results*

(i) *Audited results for the three years ended 31 December, 2003*

The following is a summary of the results of the Company for each of the three years ended 31 December, 2001, 2002 and 2003, which is extracted from the Prospectus.

	Year ended 31 December,		
	2001	2002	2003
	(audited)	(audited)	(audited)
	RMB'000	RMB'000	RMB'000
Turnover	856,581	1,880,368	3,555,670
Profit for the year	78,512	167,545	277,468

As indicated above, the Company recorded an annual growth of approximately 120% and 89% in its business turnover for the year ended 31 December, 2002 and 2003, respectively. Similar growth of approximately 113% and 66% was also registered in the Company's profit for the same years.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

For each of the three years ended 31 December, 2001, 2002 and 2003, the Company's purchases of raw materials accounted for approximately 17.4%, 14.3% and 13.4% of the total purchases, respectively, and purchases of raw materials from connected persons accounted for approximately 15.6%, 12.6% and 7.0% of the total purchases, respectively.

For each of the three years ended 31 December, 2001, 2002 and 2003, the aggregate sales to connected persons accounted for approximately 35.7%, 38.6% and 36.9% of the total sales of the Company, respectively.

(ii) *Unaudited results for the six months ended 30 June, 2004*

According to the latest interim results of the Company for the six-month period ended 30 June, 2004, the Company had unaudited turnover of approximately RMB2,802 million, representing an increase of approximately 60.7% over the same period in 2003. The Company's turnover for the first half of this year was mainly derived from the sale of its Engines for use in the heavy-duty trucks and construction machines, which accounted for approximately 53.2% and 36.0% of the total turnover of the Company respectively. The significant increase in turnover for the period was attributable to the robust market demand for the Company's Engines. As stated in the Company's latest interim report, in order to cope with such rising demand, the Company has further expanded its production capacity and improved its operational efficiency. The expansion in the scale of production has enabled the Company to achieve economies of scale and adopt a more flexible and competitive pricing strategy for the Company's products. As a result, the unaudited net profit of the Company increased by approximately 102.4% from that for the same period in 2003 to approximately RMB249 million for the six months ended 30 June, 2004.

2. Reasons for the Continuing Connected Transactions

Before the Company's H Shares became listed in March 2004, the Company has had business relationships with certain entities, which would become connected persons of the Company under the Listing Rules immediately after it became a listed company and the transactions between the Company and these entities would normally require disclosure and/or approval by the independent shareholders of the Company. The Directors consider that it would be impractical to make disclosure or to obtain approvals from time to time if the Company is to operate its business effectively. Accordingly, the Company had applied for, and had been granted a waiver from the Stock Exchange (the "Waiver") from strict compliance with the Listing Rules in relation to these ongoing connected transactions for each of the two years ending 31 December, 2005 and relevant Existing Caps have been assigned to each of the Connected Transactions for each of the two years ending 31 December, 2005.

As advised by the Directors, during the constant review and continuous assessment of the internal demand for the Company's products as well as the operating conditions of the Company, the Company estimates that certain of the Existing Caps have to be revised in order to cope with the business operations of the Company. The reasons for, and benefits of, the Non-exempt Continuing Connected Transactions are contained in the Prospectus. In particular, the Directors had confirmed in the Prospectus that the Non-exempt Continuing Connected Transactions had been entered into after arm's length negotiation with the Connected Persons and were carried out in the ordinary and usual course of business of the Company 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. In addition, CITIC Capital Markets Limited, the sponsor of the Company's listing

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

application, had also expressed its view in the Prospectus that the Continuing Connected Transactions, i.e. including the Non-exempt Continuing Connected Transactions, were fair and reasonable as far as the Shareholders as a whole were concerned and the transactions thereunder were in the ordinary and usual course of the Company's business.

I. Continuing connected transactions between the Company and Weichai Factory

1. *Provision of general services by Weichai Factory to the Company*

A. *Terms of the general services agreement and the relevant supplemental agreement*

Pursuant to a general services agreement dated 17 November, 2003 (as amended) entered into between the Company and Weichai Factory, Weichai Factory has agreed to provide certain general services to the Company, namely, environmental protection, security, fire, repair, maintenance and other general services and the payment of certain town land use right tax in relation to the property occupied and/or used by the Company (and/or its staff, if applicable), for a term of three years with effect from 1 January, 2003. Under a supplemental agreement dated 15 September, 2004, the term for the provision of the general services has been extended to 31 December, 2006 while other terms and conditions of the general services agreement remain unchanged.

B. *Rationale for determining the New Cap*

For the year ended 31 December, 2003 and the six months ended 30 June, 2004, the fees paid by the Company with respect to the above-mentioned general services to Weichai Factory were determined based on the costs incurred by Weichai Factory and apportioned on a pro-rata basis according to the area of the relevant property occupied and/or used by the Company (and/or its staff), and if applicable, plus a service charge representing 20% of such costs, details of which are set out in the Prospectus.

The following sets out (i) the fees paid by the Company to Weichai Factory with respect to the abovementioned general services for the year ended 31 December, 2003 and the six months ended 30 June, 2004; (ii) the relevant Existing Caps granted under the Waiver for the two years ending 31 December, 2004 and 2005; and (iii) the proposed New Cap for the year ending 31 December, 2006:

	Fees paid/ estimated to be payable by the Company to Weichai Factory (RMB' million)	Increase/ (Decrease) as compared to the previous financial year (%)
Actual fees:		
1 January, 2003–31 December, 2003 (audited)	9.1	N/A
1 January, 2004–30 June, 2004 (unaudited)	7.4	N/A
Existing Caps granted under the Waiver:		
1 January, 2004–31 December, 2004	15	65
1 January, 2005–31 December, 2005	16	7
Proposed New Cap for the year ending 31 December, 2006:		
1 January, 2006–31 December, 2006	18	13

On the basis that the above New Cap for the year ending 31 December, 2006 has been estimated by the Company primarily based on the relevant historical costs and the estimated annual salary growth rate of 15% of Weichai Factory for the year ending 31 December, 2006, we consider the New Cap for the year ending 31 December, 2006 to be fair and reasonable.

2. *Supply and/or connection of utilities by Weichai Factory to the Company*

A. *Terms of the utility services agreement and the relevant supplemental agreement*

Pursuant to a utility services agreement dated 17 November, 2003 entered into between the Company and Weichai Factory, Weichai Factory has agreed to provide or provide the connection of (as the case may be) certain utility and energy services to the Company, which include water, electricity, gas, steam, oxygen, nitrogen, compressed air, waste water treatment and supply of treated waste water, etc. for a term of three years with effect as from 1 January, 2003. Under a supplemental agreement dated 15 September, 2004, the term for provision of such utility services has been extended to 31 December, 2006 while other terms and conditions of the utility services agreement remain unchanged.

B. *Rationale for determining the New Cap*

For the year ended 31 December, 2003 and the six months ended 30 June, 2004, the costs incurred by Weichai Factory with respect to the provision and/or connection of the above-mentioned utility and energy services to the Company were determined based on the amount of utilities used by the Company, and if applicable, plus a service charge representing 20% of such costs and by reference to the market prices of such utilities, details of which are set out in the Prospectus.

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The following sets out (i) the fees paid by the Company with respect to the abovementioned utility and energy services for the year ended 31 December, 2003 and the six months ended 30 June, 2004; (ii) the relevant Existing Caps granted under the Waiver for the two years ending 31 December, 2004 and 2005; and (iii) the proposed New Cap for the year ending 31 December, 2006:

	Fees paid/ estimated to be payable by the Company to Weichai Factory (RMB' million)	Increase as compared to the previous financial year (%)
Actual fees paid to Weichai Factory:		
1 January, 2003–31 December, 2003 (audited)	54.7	N/A
1 January, 2004–30 June, 2004 (unaudited)	46.7	N/A
Existing Caps granted under the Waiver:		
1 January, 2004–31 December, 2004	135.0	147
1 January, 2005–31 December, 2005	170.0	26
<i>Proposed New Cap for the year ending 31 December, 2006:</i>		
<i>1 January, 2006–31 December, 2006</i>	<i>170.0</i>	<i>Nil</i>

The Company estimates that the utility and energy services costs incurred by the Company in 2006 will remain the same as that of 2005, as the Company's new production plant which is expected to become operational in the second quarter of 2005 will not require the provision of utility and energy services by Weichai Factory. We were advised by the Directors that the annual cap for the year ending 31 December, 2005 was arrived at based on the maximum production capacity of the Company without taking into account the new production plant and any additional production plant which may be acquired by the Company. The Directors further advised that due to the anticipated increase in the demand for the Company's WD615 Engines during 2004 to 2006, the Company will still operate in full scale under its existing production line located in Weichai Factory even after the new production line becomes fully operational in 2005. Based on the above, we therefore consider it fair and reasonable to set the New Cap for the year ending 31 December, 2006 at the same level as 2005.

3. *Supply of WD615 Engines by the Company to Weichai Factory*

A. *Terms of the framework agreement and the relevant supplemental agreement*

Pursuant to a framework agreement dated 17 November, 2003 entered into between the Company and Weichai Factory, the Company has agreed to supply diesel engines to Weichai Factory in quantities of not more than 100 units, 120 units and 150 units for the three years ended 31 December, 2003, 2004 and 2005 respectively. Subsequently on 15 September, 2004, the Company and Weichai Factory entered into a supplemental agreement and pursuant to which, the Company has agreed to supply diesel engines to Weichai Factory in quantities of not more than 1,591, 1,945 and 1,945 units for each of

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the three years ending 31 December, 2004, 2005 and 2006 respectively. Other terms and conditions of the framework agreement remain unchanged under the supplemental agreement.

B. *Rationale for determining the New Caps*

The following sets out (i) the total consideration received by the Company from Weichai Factory in relation to the supply of diesel engines for the year ended 31 December, 2003 and the six months ended 30 June, 2004; (ii) the relevant Existing Caps granted under the Waiver for the two years ending 31 December, 2004 and 2005; and (iii) the proposed New Caps for the three years ending 31 December, 2004, 2005 and 2006:

	Fees received/ estimated to be received by the Company from Weichai Factory (RMB' million)	Increase as compared to the previous financial year (%)
Actual sales:		
1 January, 2003–31 December, 2003 (audited)	4	N/A
1 January, 2004–30 June, 2004 (unaudited)	5.7	N/A
Existing Caps granted under the Waiver:		
1 January, 2004–31 December, 2004	6	50
1 January, 2005–31 December, 2005	7	17
<i>Proposed New Caps for each of the three years ending 31 December, 2006:</i>		
<i>1 January, 2004–31 December, 2004</i>	<i>90</i>	<i>2,150</i>
<i>1 January, 2005–31 December, 2005</i>	<i>115</i>	<i>28</i>
<i>1 January, 2006–31 December, 2006</i>	<i>115</i>	<i>Nil</i>

As stated in the Prospectus, Weichai Factory is also engaged in the manufacture and sale of 6160A series, 170Z series and R and 95 series diesel engines. The 6160A series and 170Z series are medium speed diesel engines and are mainly used in fishing boats and power generators of 200kW (or above) of which WD615 Engines are one of the components. The Company commenced to sell WD615 Engines to Weichai Factory in 2003 and such sales amounted to approximately RMB4 million, which accounted for approximately 0.1% of the Company's turnover for the year ended 31 December, 2003.

As stated in the letter from the Board, the Company is a leading manufacturer of the diesel engines in the PRC with market shares in supplying heavy-duty vehicles with load capacity of 15 tonnes (and above) and wheel-loaders with load capacity of 5 tonnes (and above) of approximately 75% and 73% respectively. This evidences the quality and competitiveness of the Company's Engines in the PRC market generally. With the proximity between the Company's production facilities and those of Weichai Factory and in view of the high quality and competitiveness of the Company's Engines, the Company believes that Weichai Factory will continue to purchase the Company's Engines for the manufacture of its power generators.

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Due to the severe power shortage in China, the Company believes that more factories purchase their own power generators to maintain normal operations, and as a result, the demand for power generators in China has increased significantly. As stated in the letter from the Board, the severe escalation of power shortage in China has far exceeded the anticipation of the Company at the time when it estimated the relevant Existing Caps. As a result thereof, the orders for Weichai Factory's power generators as well as Weichai Factory's demand for the Company's diesel engines have increased tremendously. The substantial growth of more than 20 times of the proposed New Cap for the year ending 31 December, 2004 as compared to the actual sales derived for the year ended 31 December, 2003 is attributable to the expected increase in demand for power generators manufactured by Weichai Factory as a result of the shortage in power supply in the PRC. Weichai Factory anticipates that the infrastructure investments in the energy sector will increase power supply in the PRC and therefore it is believed that the demand for its power generators will remain steady in 2006. A supplemental agreement was therefore signed between Weichai Factory and the Company to increase the number of units of WD615 Engines to be supplied by the Company to Weichai Factory.

The New Caps for each of the years ending 31 December, 2004, 2005 and 2006 have been determined by the Directors with reference to the estimate prepared by Weichai Factory as to the number of units of diesel engines required by Weichai Factory for 2004, an estimated 25% growth rate for 2005, Weichai Factory's anticipation that infrastructure investments in the energy sector will increase power supply in the PRC and therefore the demand for its power generators will remain steady in 2006, and the Company's estimate of the average unit price of these diesel engines throughout the periods.

According to the information released by the Embassy of the PRC in the United States of America on 29 December, 2003, the deputy general manager of the State Grid Corporation (國家電網公司) said that electricity consumption in the PRC has been growing by at least 15% on average since June 2002. 21 provincial areas or two thirds of China's total had to limit the use of electricity due to power shortages. It is also stated that according to the State Grid Corporation, China's electricity consumption would grow to 2,091 billion kiloWatt-hour in 2004, up by approximately 10% over 2003. Power shortage would worsen and more areas would encounter blackouts. Since early in the winter of 2003, seven provinces have enforced blackouts as an energy savings measure in selected areas. According to the information published on the website of People's Daily (人民日報) dated 9 June, 2004, an industry report of the State Information Centre forecasted China will face more severe power shortage in 2004, compared with the last year. Areas under continual blackouts will increase.

In view of the above, we are of the view that it is fair and reasonable to expect a substantial growth in the demand for power generators in the PRC in 2004 and a moderate growth in 2005, which in turn would justify for a boost in the sales of Engines expected by the Company.

In order to ease power shortage, the Chinese government has taken efforts to increase the power generating capacity and other measures including restricting power supply to enterprises that are big power consumers and big polluters, evening out peak power consumption periods and promoting efficient use of power. Despite the fact that the China government has implemented measures to increase power generation, it is uncertain and unlikely to predict as to when the problem of shortage in power supply can be eased.

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As such, we consider it prudent for the Company to assume a steady demand for the Company's Engines of Weichai Factory in 2006. We also consider the New Caps for each of the three years ending 31 December, 2006 to be fair and reasonable.

4. *Supply of finished diesel engine parts by Weichai Factory to the Company*

A. *Terms of the finished diesel engine parts supply agreement and the relevant supplemental agreement*

Pursuant to a finished diesel engine parts supply agreement dated 17 November, 2003 entered into between the Company and Weichai Factory, Weichai Factory has agreed to supply finished diesel engine parts to the Company for a term of three years effective from 1 January, 2003. On 15 September, 2004, the Company and Weichai Factory entered into a supplemental agreement to extend the effective period of the original supply agreement to end on 31 December, 2006.

B. *Rationale for determining the New Caps*

The following sets out (i) the total consideration paid by the Company to Weichai Factory in relation to the purchase of finished diesel engine parts for each of the three years ended 31 December, 2003 and the six months ended 30 June, 2004; (ii) the relevant Existing Caps granted under the Waiver for the two years ending 31 December, 2004 and 2005; and (iii) the proposed New Caps for the three years ending 31 December, 2004, 2005 and 2006:

	Consideration paid/estimated to be payable by the Company to Weichai Factory (RMB' million)	Increase as compared to the previous financial year (%)
Actual value of purchase:		
1 January, 2001–31 December, 2001 (audited)	12.4	N/A
1 January, 2002–31 December, 2002 (audited)	26.2	111
1 January, 2003–31 December, 2003 (audited)	37.1	42
1 January, 2004–30 June, 2004 (unaudited)	29.6	N/A
Existing Caps granted under the Waiver:		
1 January, 2004–31 December, 2004	65	75
1 January, 2005–31 December, 2005	93	43
<i>Proposed New Caps for each of the three years ending 31 December, 2006:</i>		
<i>1 January, 2004–31 December, 2004</i>	<i>75</i>	<i>102</i>
<i>1 January, 2005–31 December, 2005</i>	<i>115</i>	<i>53</i>
<i>1 January, 2006–31 December, 2006</i>	<i>180</i>	<i>57</i>

According to the Directors, as a result of (i) the growing demand for the heavy-duty vehicles and construction machines, (ii) the power shortage in China, and (iii) the increase in demand for the Company's diesel engines by those sectors, the Company is expected to experience a significant growth in the sales of Engines in the second quarter of 2004.

The above proposed New Caps have been prepared by the Company based on its estimate of the production volume of Engines and of the average unit prices (which have been projected based on the Company's estimated salary growth rate) of those finished diesel engine parts to be purchased by the Company, and in view of (i) the growing demand for the heavy-duty vehicles, an analysis of which has been set out in the subparagraph headed "Overview of the heavy-duty vehicles industry in China" above and the paragraph headed "Sale of diesel engines and finished diesel engine parts by the Company to the China Heavy Duty Truck Group" below; (ii) the expected increase in demand for construction machines, an analysis of which has been set out in the subparagraph headed "Overview of the market for the construction machines in China" above and (iii) the problem of inadequate power supply, which was discussed in the above paragraph headed "Supply of WD615 Engines by the Company to Weichai Factory", we consider the New Caps for each of the three years ending 31 December, 2006 to be fair and reasonable.

5. *Supply of semi-finished diesel engine parts by the Company to Weichai Factory*

A. *Terms of the semi-finished diesel engine parts supply agreement and the relevant supplemental agreement*

Pursuant to a semi-finished diesel engine parts supply agreement dated 17 November, 2003 entered into between the Company and Weichai Factory, the Company has agreed to supply medium speed semi-finished diesel engine parts to Weichai Factory for three years with effect from 1 July, 2003. On 15 September, 2004, the Company and Weichai Factory entered into a supplemental agreement and pursuant to which, the Company has agreed to supply medium speed semi-finished diesel engine parts to Weichai Factory and to extend the term of the original supply agreement to end on 31 December, 2006. Other terms and conditions of the semi-finished diesel engine parts supply agreement remain unchanged.

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B. *Rationale for determining the New Caps*

The following sets out (i) the total sales derived from the provision of diesel engine parts by the Company to Weichai Factory for the year ended 31 December, 2003 and the six months ended 30 June, 2004; (ii) the relevant Existing Caps granted under the Waiver for the two years ending 31 December, 2004 and 2005; and (iii) the proposed New Caps for the three years ending 31 December, 2004, 2005 and 2006:

	Sales derived/ estimated to be derived from the supply of semi- finished diesel engine parts by the Company to Weichai Factory (RMB' million)	Increase as compared to the previous financial year (%)
Actual sales:		
1 January, 2003–31 December, 2003 (audited)	20.1	N/A
1 January, 2004–30 June, 2004 (unaudited)	35.5	N/A
Existing Caps granted under the Waiver:		
1 January, 2004–31 December, 2004	45	N/A (<i>note</i>)
1 January, 2005–31 December, 2005	52	16
<i>Proposed New Caps for each of the three years ending 31 December, 2006:</i>		
<i>1 January, 2004–31 December, 2004</i>	<i>175</i>	<i>N/A (note)</i>
<i>1 January, 2005–31 December, 2005</i>	<i>200</i>	<i>14</i>
<i>1 January, 2006–31 December, 2006</i>	<i>200</i>	<i>Nil</i>

Note: The Company only leased the relevant Buildings and Equipments from Weichai Factory for the manufacture of semi-finished diesel engine parts with effect from 1 July, 2003. Accordingly, the Company has only supplied the above-mentioned semi-finished diesel engine parts to Weichai Factory since 1 July, 2003.

According to the Directors, the significant increase in the proposed New Caps from the relevant Existing Caps is primarily due to the expected growth in demand for medium speed diesel engines manufactured by Weichai Factory, which are mainly used in power generators of 200kW, as a result of the power shortage in the PRC as discussed above. The Company believes that, owing to the quality of its semi-finished diesel engine parts and their compatibility with the diesel engines of Weichai Factory, Weichai Factory will continue to source such semi-finished diesel engine parts from the Company.

As stated in the letter from the Board, the above New Caps have been prepared by the Company primarily based on its estimate of the number of units of the diesel engine parts to be sold to Weichai Factory, which in turn was based on (i) the estimation prepared by Weichai Factory of its production volume of power generators and medium-speed diesel engines and an approximately 25% increase in the costs of such semi-finished diesel engine parts required on a per unit of diesel engine basis for 2004, an

estimated 15% production volume growth rate for 2005 and Weichai Factory's anticipation that infrastructure investments in the power sector will increase power supply in the PRC and therefore the demand for its power generators will remain steady in 2006 and (ii) the Company's estimation of the average selling prices of its semi-finished diesel engine parts which was based on the estimated costs in relation to its semi-finished diesel engine parts plus a services charge of 20% of such costs. In view of the above and our analysis on the shortage in power supply in China under the paragraph headed "Supply of WD615 Engines by the Company to Weichai Factory" above, we consider that the New Caps for each of the three years ending 31 December, 2006 to be fair and reasonable.

6. *Provision of sales and warranty period repair services by the Company to Weichai Factory*

A. *Terms of the master sales and warranty period repair services agreement and the relevant supplemental agreement*

As the Company and Weichai Factory share the same sales and maintenance network prior to the incorporation of the Company, and such network has become part of the business of the Company after its incorporation, the Company and Weichai Factory entered into a master sales and warranty period repair services agreement on 17 November, 2003 and pursuant to which, the Company has agreed to provide sales and warranty period repair services to the customers of Weichai Factory with respect to the diesel engines manufactured by Weichai Factory for a period of three years with effect from 1 September, 2003. In consideration of the services provided by the Company, Weichai Factory has agreed to pay the Company an annual service fee of 3% of the total amount of sales of diesel engines procured by the Company. On 15 September, 2004, the Company and Weichai Factory entered into a supplemental agreement and pursuant to which, the parties have agreed to extend the term of the original services agreement to end on 31 December, 2006. Other terms and conditions of the master sales and warranty period repair services agreement remain unchanged.

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B. *Rationale for determining the New Caps*

The following sets out (i) the total services fee received by the Company from Weichai Factory in relation to the provision of sales and warranty period repair services to the customers of Weichai Factory for the year ended 31 December, 2003 and the six months ended 30 June, 2004; (ii) the relevant Existing Caps granted under the Waiver for the two years ending 31 December, 2004 and 2005; and (iii) the proposed New Caps for the three years ending 31 December, 2004, 2005 and 2006:

	Total services fee received/estimated to be receivable by the Company from Weichai Factory (RMB' million)	Increase as compared to the previous financial year (%)
Actual fee:		
1 January, 2003–31 December, 2003 (audited)	2.5	N/A
1 January, 2004–30 June, 2004 (unaudited)	6.1	N/A
Existing Caps granted under the Waiver:		
1 January, 2004–31 December, 2004	8	N/A (<i>note</i>)
1 January, 2005–31 December, 2005	8	Nil
<i>Proposed New Caps for each of the three years ending 31 December, 2006:</i>		
<i>1 January, 2004–31 December, 2004</i>	<i>16</i>	<i>N/A (note)</i>
<i>1 January, 2005–31 December, 2005</i>	<i>16</i>	<i>Nil</i>
<i>1 January, 2006–31 December, 2006</i>	<i>16</i>	<i>Nil</i>

Note: The Company only started to provide the above-mentioned sales and warranty period repair services as from 1 September, 2003.

As stated in the letter from the Board, the above New Caps have been estimated by the Company based on 3% of the estimated amount of the sales of diesel engines manufactured by Weichai Factory and procured by the Company. As a result of the power shortage in China mentioned above, the demand for Weichai Factory's power generators has increased significantly. The demand for Weichai Factory's medium speed diesel engines has also increased. The severe escalation of power shortage in China has far exceeded the anticipation of the Company at the time when it estimated the relevant Existing Caps. As a result thereof, the orders for Weichai Factory's power generators as well as Weichai Factory's demand for the Company's semi-finished diesel engine parts have increased tremendously. However, Weichai Factory anticipates that infrastructure investments in the power sector will increase power supply in the PRC and therefore the demand for its power generators will become steady in 2006, and therefore, Weichai Factory has taken a conservative view on the sales volume of its diesel engines for 2005 and 2006, and hence the New Caps for 2005 and 2006 remain the same as that for 2004.

Based on our analysis on the shortage in power supply in China under the paragraph headed "Supply of WD615 Engines by the Company to Weichai Factory" above and according to the expected growth in demand for medium speed diesel engines

manufactured by Weichai Factory, which are mainly used in power generators of 200kW, as a result of the power shortage in the PRC, we consider that the New Caps for each of the three years ending 31 December, 2006 to be fair and reasonable.

II. Continuing connected transactions between the Company and Chongqing Weichai

1. *Provision of general services by Chongqing Weichai to the Company*

A. *Terms of the general services agreement and the relevant supplemental agreement*

Pursuant to a general services agreement dated 17 November, 2003 (as amended) entered into between the Company and Chongqing Weichai, Chongqing Weichai has agreed to provide certain general services to Chongqing Branch, namely, environmental protection, security, fire and other general services and the payment of certain town land use right tax in relation to the property used by Chongqing Branch for a term of three years with effect from 1 July, 2003. Under a supplemental agreement dated 15 September, 2004, the term for the provision of the general services has been extended to 31 December, 2006 while other terms and conditions of the general services agreement remain unchanged.

B. *Rationale for determining the New Caps*

For the year ended 31 December, 2003 and the six months ended 30 June, 2004, the total service fees paid by the Company to Chongqing Weichai with respect to the above-mentioned general services were determined based on the costs incurred by Chongqing Weichai and apportioned on a pro-rata basis according to the area of the relevant property occupied and/or used by Chongqing Branch (and/or its staff), and if applicable, plus a service charge representing 20% of such costs, details of which are set out in the Prospectus.

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The following sets out (i) the actual service fees paid by the Company to Chongqing Weichai with respect to the abovementioned general services for the year ended 31 December, 2003 and the six months ended 30 June, 2004; (ii) the relevant Existing Caps granted under the Waiver for the two years ending 31 December, 2004 and 2005; and (iii) the proposed New Caps for each of the three years ending 31 December, 2004, 2005 and 2006:

	Fees paid/ estimated to be payable by the Company to Weichai Factory (RMB' million)	Increase as compared to the previous financial year (%)
Actual fees:		
1 January, 2003–31 December, 2003 (audited)	4.2	N/A
1 January, 2004–30 June, 2004 (unaudited)	2.9	N/A
Existing Caps granted under the Waiver:		
1 January, 2004–31 December, 2004	5	N/A (<i>note</i>)
1 January, 2005–31 December, 2005	6	20
<i>Proposed New Caps for each of the three years ending 31 December, 2006:</i>		
<i>1 January, 2004–31 December, 2004</i>	<i>10</i>	<i>N/A</i>
<i>1 January, 2005–31 December, 2005</i>	<i>13</i>	<i>30</i>
<i>1 January, 2006–31 December, 2006</i>	<i>16</i>	<i>23</i>

Note: The provision of general services only started from 1 July, 2003.

According to the Directors, due to the heavy rain and flooding in Chongqing this year, the drainage system and some properties of Chongqing Weichai have been badly damaged and require substantial repair. Costs of repair and maintenance work of Chongqing Weichai are therefore expected to increase significantly as a result of such unforeseen events. Based on the information published on the official website of the Ministry of Water Resources of the PRC (中華人民共和國水利部) on 6 September, 2004, the recent rainstorm, which started on 4 September, 2004, has brought a precipitation of 327.3 mm to Kaixian county of Chongqing, a record of the county in two centuries. The rainstorm-triggered floods and landslides have affected all the county's 55 towns. Flooding also caused a blackout and cut off traffic and telecommunications services in the whole county.

On the basis that the above New Caps have been estimated by the Company primarily based on the expected increase in costs of repair and maintenance work for the drainage system and some properties of Chongqing Weichai as a result of the damage caused by heavy rain and flooding in Chongqing this year and the estimated increase in annual salary growth rate from 20% to 30% in 2005 and 2006, we consider the New Caps for each of the three years ending 31 December, 2006 to be fair and reasonable.

2. Supply and/or connection of utilities by Chongqing Weichai to the Company

A. Terms of the utility services agreement and the relevant supplemental agreement

Pursuant to a utility services agreement dated 17 November, 2003 entered into between the Company and Chongqing Weichai, Chongqing Weichai has agreed to provide or provide the connection of (as the case may be) the following utility and energy services to Chongqing Branch, namely, water, electricity, natural gas, steam, oxygen, nitrogen and compressed air, etc, for a term of three years with effect from 1 July, 2003. Under a supplemental agreement dated 15 September, 2004, the term for provision of the utility services has been extended to 31 December, 2006 while other terms and conditions of the utility services agreement remain unchanged as in the original service agreement.

B. Rationale for determining the New Cap

Under the utility services agreement, the fees payable by the Company to Chongqing Weichai in respect of the relevant utility and energy services will be determined based on the usage thereof by the Chongqing Branch, and if applicable, plus a service charge representing 20% of such costs and by reference to the market prices of such utilities, details of which are set out in the Prospectus.

The following sets out (i) the fees paid by the Company with respect to the abovementioned utility and energy services for the year ended 31 December, 2003 and the six months ended 30 June, 2004; (ii) the relevant Existing Caps granted under the Waiver for the two years ending 31 December, 2004 and 2005; and (iii) the proposed New Cap for the year ending 31 December, 2006:

	Fees paid/ estimated to be payable by the Company to Chongqing Weichai (RMB' million)	Increase as compared to the previous financial year (%)
Actual fees paid by the Company:		
1 January, 2003–31 December, 2003 (audited)	7.7	N/A
1 January, 2004–30 June, 2004 (unaudited)	7.5	N/A
Existing Caps granted under the Waiver:		
1 January, 2004–31 December, 2004	65	N/A (note)
1 January, 2005–31 December, 2005	90	38
Proposed New Cap for the year ending 31 December, 2006:		
1 January, 2006–31 December, 2006	90	Nil

Note: The Company only leased the Chongqing Properties as from 1 July, 2003 and Chongqing Weichai only provided the above supply and connection of utilities services to Chongqing Branch in the six months ended 31 December, 2003.

The Company estimates that the utility and energy services cost incurred by the Company in 2006 will remain the same as that of 2005, as the Company's new production plant which is expected to become operational in the second quarter of 2005 will not require the provision of utility and energy services by Chongqing Weichai. We are advised by the Directors that the annual cap for the year ending 31 December, 2005 was arrived at based on the maximum production capacity of the Company without taking into account the new production plant and any additional production plant which may be acquired by the Company. The Directors further advised that due to the anticipated increase in the demand for the Company's WD615 Engines during 2004 to 2006, the Company will still operate in full scale under its existing production line located in Chongqing Branch even after the new production line becomes fully operational in 2005. Based on the above, we therefore consider it fair and reasonable to set the New Cap for the year ending 31 December, 2006 at the same level as 2005.

3. *Provision of processing services by Chongqing Weichai to the Company*

A. *Terms of the processing services agreement and the relevant supplemental agreement*

Pursuant to a processing services agreement dated 17 November, 2003 (as amended) entered into between the Company and Chongqing Weichai, Chongqing Weichai has agreed to provide processing services in respect of certain semi-finished diesel engine parts to the Company's branch unit in Chongqing for a period of three years with effect from 1 July, 2003. Subsequently on 15 September, 2004, the Company and Chongqing Weichai entered into a supplemental agreement and pursuant to which, the Company and Chongqing Weichai have agreed to extend the term of the processing services agreement to end on 31 December, 2006. Other terms and conditions of the processing services agreement remain unchanged.

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B. *Rationale for determining the New Cap*

The following sets out (i) the total processing fees paid by the Company to Chongqing Weichai in relation to the processing services for the year ended 31 December, 2003 and the six months ended 30 June, 2004; (ii) the relevant Existing Caps granted under the Waiver for the two years ending 31 December, 2004 and 2005; and (iii) the proposed New Cap for the year ending 31 December, 2006:

	Processing fees paid/estimated to be payable by the Company to Chongqing Weichai (RMB' million)	Increase as compared to the previous financial year (%)
Actual fees:		
1 January, 2003–31 December, 2003 (audited)	31.2	N/A
1 January, 2004–30 June, 2004 (unaudited)	44.9	N/A
Existing Caps granted under the Waiver:		
1 January, 2004–31 December, 2004	96	N/A (<i>note</i>)
1 January, 2005–31 December, 2005	164	71
<i>Proposed New Cap for the year ending 31 December, 2006:</i>		
<i>1 January, 2006–31 December, 2006</i>	<i>164</i>	<i>Nil</i>

Note: Chongqing Weichai only commenced to provide processing service to Chongqing Branch since July 2003.

The proposed New Cap for the year ending 31 December, 2006 was prepared by the Company primarily based on its estimate of the processing volume required by the Company, which is in turn a function of the production volume of the Company, and of the processing cost per kilogram of engine parts which has been prepared based on the Company's estimate of its salary growth rate. The Company estimates that the costs to be incurred in relation to the provision of processing services by Chongqing Weichai to the Company in 2006 will remain the same as that of 2005, as the Company's new production facility, which is expected to become operational in 2005, will not require the provision of processing services by Chongqing Weichai. The cap granted under the Waiver for the year ending 31 December, 2005 was approximately RMB164 million. We notice that for the six months ended 30 June, 2004, the processing fee amounted to approximately RMB44.9 million which has outgrown the processing fees paid in 2003 since July 2003 by approximately 44%, and was about half way to the Existing Cap for 2004. As the Company's branch unit in Chongqing was established and started operation in July 2003 and the actual results for the first half of 2004 appear to be in line with the relevant Existing Cap for 2004, we consider it fair and reasonable for the Company to assume the production requirement in its Chongqing unit in 2006 to remain the same as that in 2005.

III. Continuing connected transactions between the Company and the China Heavy Duty Truck Group

1. *Sale of diesel engines and finished diesel engine parts by the Company to the China Heavy Duty Truck Group*

A. *Terms of the framework agreement and the relevant supplemental agreement*

Pursuant to a framework agreement dated 21 October, 2003 entered into between the Company and an associate of CHDTGL, 中國重型汽車集團濟南卡車有限公司 (China Heavy Duty Truck Group Jinan Truck Company Limited), the Company has agreed to supply heavy-duty high-speed diesel engines and the relevant parts to the China Heavy Duty Truck Group for a period of three years with effect from 1 January, 2003 of not more than 16,011 units, 22,700 units, 32,300 units for each of the three years ending 31 December, 2003, 2004 and 2005 respectively. Subsequently on 15 September, 2004, the Company and an associate of CHDTGL, 中國重型汽車集團濟南卡車有限公司 (China Heavy Duty Truck Group Jinan Truck Company Limited) entered into a supplemental agreement and pursuant to which, the Company has agreed to supply diesel engines and the relevant parts to the China Heavy Duty Truck Group until 31 December, 2006 of not more than 35,000 units, 50,000 units, 80,000 units for each of the three years ending 31 December, 2004, 2005 and 2006 respectively. Other terms and conditions of the framework agreement remain unchanged.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

B. *Rationale for determining the New Caps*

The following sets out (i) the total consideration received by the Company from the China Heavy Duty Truck Group in relation to the sale of heavy-duty high-speed diesel engines and the relevant parts by the Company to the China Duty Heavy Truck Group for the three years ended 31 December, 2003 and the six months ended 30 June, 2004; (ii) the relevant Existing Caps granted under the Waiver for the two years ending 31 December, 2004 and 2005; and (iii) the proposed New Caps for the three years ending 31 December, 2004, 2005 and 2006:

	Consideration received/estimated to be received by the Company from the China Heavy Duty Truck Group (RMB' million)	Increase as compared to the previous financial year (%)
Actual sales:		
1 January, 2001–31 December, 2001 (audited)	216.0	N/A
1 January, 2002–31 December, 2002 (audited)	396.3	83
1 January, 2003–31 December, 2003 (audited)	750.1	89
1 January, 2004–30 June, 2004 (unaudited)	716.0	N/A
Existing Caps granted under the Waiver:		
1 January, 2004–31 December, 2004	1,029	37
1 January, 2005–31 December, 2005	1,465	42
<i>Proposed New Caps for each of the three years ending 31 December, 2006:</i>		
<i>1 January, 2004–31 December, 2004</i>	<i>1,800</i>	<i>140</i>
<i>1 January, 2005–31 December, 2005</i>	<i>2,600</i>	<i>44</i>
<i>1 January, 2006–31 December, 2006</i>	<i>4,100</i>	<i>58</i>

The China Heavy Duty Truck Group (excluding the Weichai Factory group of companies and Hangqi) is engaged in the businesses of, among others, the manufacture and sale of coaches and heavy-duty vehicles and vehicle parts, certain of which require the diesel engines and certain finished diesel engine parts manufactured by the Company.

As stated in the letter from the Board, the proposed New Caps have been prepared by the Company primarily based on the Company's estimate of the number of units of diesel engines to be sold by the Company to the China Heavy Duty Truck Group under the supplemental agreement and the average unit selling price of these engines and the diesel engine parts.

According to the Directors, the significant growth of the proposed New Caps is mainly attributable to the growing demand for heavy-duty vehicles in the PRC, which has led to an increase in the demand for the China Heavy Duty Truck Group's products.

According to the information published on the official website of China Vehicles Industrial Organisation (中國汽車工業協會) and further advised by the Directors, the total sales of heavy-duty trucks recorded for the top 21 manufacturers of heavy-duty trucks in China amounted to 164,221 units for the six months ended 30 June, 2004, representing a growth of approximately 15.7% from the corresponding period in 2003. In addition, we also notice from the same statistics that the total sales of heavy-duty trucks recorded by CHDTGL amounted to approximately 20,223 units, representing a growth of approximately 81.1% from the same period in 2003. As stated in the paragraph headed “Overview of the heavy-duty vehicles industry in China” above, in view of the PRC government’s policy to restrict truck overloading and the major infrastructure projects in place in China, we consider that the market demand for heavy-duty vehicles will continue to be promising which will in turn drive the demand for heavy-duty diesel engines used in the production of these vehicles. In view of the significant growth in the sales of heavy-duty trucks recorded by CHDTGL and the promising market demand for heavy-duty vehicles and on the basis that the New Caps have been arrived at based on the number of units of diesel engines to be sold by the Company to the China Heavy Duty Truck Group under the supplemental agreement, we consider it fair and reasonable for the Company to set the proposed New Caps for the three years ending 31 December, 2004, 2005 and 2006 at RMB1,800 million, RMB2,600 million and RMB4,100 million, respectively.

2. *Purchase of finished and semi-finished diesel engine parts by the Company from the China Heavy Duty Truck Group*

A. *Terms of the framework agreement and the relevant supplemental agreement*

Pursuant to a framework agreement dated 21 October, 2003 entered into between the Company and an associate of CHDTGL, 中國重型汽車集團濟南卡車有限公司, the China Heavy Duty Truck Group has agreed to supply finished and semi-finished diesel engine parts to the Company for a period of three years with effect from 1 January, 2003 to 31 December, 2005. Subsequently on 15 September, 2004, the Company and an associate of CHDTGL, 中國重型汽車集團濟南卡車有限公司 entered into a supplemental agreement and pursuant to which, the term of the framework agreement was extended to end on 31 December, 2006. Other terms and conditions of the framework agreement remain unchanged.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

B. *Rationale for determining the New Caps*

The following sets out (i) the total consideration paid by the Company to the China Heavy Duty Truck Group in relation to the purchase of finished and semi-finished diesel engine parts by the Company from the China Heavy Duty Truck Group for the three years ended 31 December, 2003 and the six months ended 30 June, 2004; (ii) the relevant Existing Caps granted under the Waiver for the two years ending 31 December, 2004 and 2005; and (iii) the proposed New Caps for the three years ending 31 December, 2004, 2005 and 2006:

	Consideration paid/estimated to be payable by the Company to the China Heavy Duty Truck Group to the Company (RMB' million)	Increase/ (Decrease) as compared to the previous financial year (%)
Actual value of purchases:		
1 January, 2001–31 December, 2001 (audited)	25.7	N/A
1 January, 2002–31 December, 2002 (audited)	36.3	41
1 January, 2003–31 December, 2003 (audited)	22.4	(38)
1 January, 2004–30 June, 2004 (unaudited)	32.4	N/A
Existing Caps granted under the Waiver:		
1 January, 2004–31 December, 2004	37	65
1 January, 2005–31 December, 2005	45	22
<i>Proposed New Caps for each of the three years ending 31 December, 2006:</i>		
<i>1 January, 2004–31 December, 2004</i>	<i>70</i>	<i>213</i>
<i>1 January, 2005–31 December, 2005</i>	<i>110</i>	<i>57</i>
<i>1 January, 2006–31 December, 2006</i>	<i>165</i>	<i>50</i>

As a result of the increase in demand for WD615 Engines, which was prompted by the increase in the demand for coaches and heavy-duty vehicles in the PRC as stated in the paragraph headed “Sale of diesel engines and finished diesel engine parts by the Company to the China Heavy Duty Truck Group” above, the Company has accordingly increased its purchases of certain finished and semi-finished diesel engine parts manufactured by the China Heavy Duty Truck Group for the manufacture of the Company’s diesel engines.

We were advised by the Directors that total value of purchases of diesel engine parts by the Company from the China Heavy Duty Truck Group for the six months ended 30 June, 2004 amounted to approximately RMB32.4 million, which is approaching the Existing Cap for the whole year of 2004 of RMB37 million. Based on the six-month actual amount of purchases, the value of purchases for diesel engine parts by the Company from the China Heavy Duty Truck Group for the whole year ending 31 December, 2004 is therefore estimated by the Directors to be approximately RMB64.8 million on an annualized basis. In view of the substantial growth in business registered by

the Company in the first half of 2004, we are of the view that it is fair and reasonable for the Company to set the proposed New Cap for the year ending 31 December, 2004 at RMB70 million.

As advised by the Directors, the growth rate of 50% for the proposed New Caps for each of 2005 and 2006 has been determined by reference to the expected growth in the production volume of WD615 Engines to not more than 130,000 units, 200,000 units and 300,000 units that will be produced by the Company for the respective years, an analysis of which has been set out in the sub-paragraph headed “Annual production capacity” above. Such estimated growth rate is also in line with the proposed New Caps for the supply of finished diesel engine parts by the Weichai Factory to the Company as indicated in paragraph I.4 above.

IV. Continuing connected transactions between the Company and Weichai Gas

A. Terms of the framework agreement and the relevant supplemental agreement

Pursuant to a framework agreement dated 21 October, 2003 entered into between the Company and Weichai Gas, the Company has agreed to supply diesel engines and diesel engine parts to Weichai Gas of not more than 34 units, 130 units and 200 units for each of the three years ending 31 December, 2005. Subsequently, on 15 September, 2004, the Company and Weichai Gas entered into a supplemental agreement and pursuant to which, the Company has agreed to supply diesel engines and diesel engine parts to Weichai Gas of not more than 600 units, 1,500 units and 3,000 units for each of the three years ending 31 December, 2006. Other terms and conditions of the agreement remain unchanged.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

B. *Rationale for determining the New Caps*

The following sets out (i) the consideration received by the Company from Weichai Gas in relation to the sale of diesel engines and diesel engine parts by the Company to Weichai Gas for the three years ended 31 December, 2003 and the six months ended 30 June, 2004; (ii) the relevant Existing Caps granted under the Waiver for the two years ending 31 December, 2004 and 2005; and (iii) the proposed New Caps for the three years ending 31 December, 2004, 2005 and 2006:

	Consideration received/estimated to be received by the Company from Weichai Gas (RMB' million)	Increase/ (Decrease) as compared to the previous financial year (%)
Actual sales:		
1 January, 2001–31 December, 2001 (audited)	0.9	N/A
1 January, 2002–31 December, 2002 (audited)	2.8	211
1 January, 2003–31 December, 2003 (audited)	1.3	(54)
1 January, 2004–30 June, 2004 (unaudited)	4.9	N/A
Existing Caps granted under the Waiver:		
1 January, 2004–31 December, 2004	6	362
1 January, 2005–31 December, 2005	10	67
<i>Proposed New Caps for each of the three years ending 31 December, 2006:</i>		
<i>1 January, 2004–31 December, 2004</i>	<i>30</i>	<i>2,208</i>
<i>1 January, 2005–31 December, 2005</i>	<i>70</i>	<i>133</i>
<i>1 January, 2006–31 December, 2006</i>	<i>140</i>	<i>100</i>

Weichai Gas is engaged in the business of, among others, the manufacture and sale of gas-propelled internal combustion engines and parts, certain of which incorporate the entire WD615 Engines, with modifications, into them.

Due to the growing demand for coaches in Guangzhou city, Guangdong Province, the PRC, Weichai Gas has increased its purchase order for WD615 Engines from the Company. Further, with the successful application of Beijing and Guangzhou organizing the Olympic Games and Asian Games in 2008 and 2010 respectively and Shanghai hosting the World Expo in 2010, China is very keen to improve its environment, in particular, the air quality. It is therefore expected that there will be an increasing demand for environmental-friendly coaches which use liquefied petroleum gas in general as well as to replace the old coaches that are driven by diesel engines. Accordingly, we believe that the market demand for the gas-propelled internal combustion engines manufactured by Weichai Gas will increase accordingly. In view of the above and on the basis that the proposed New Caps have been prepared by the Company primarily based on the estimates prepared by Weichai Gas as to the number of units of the diesel engines required by Weichai Gas as stipulated under the supplemental agreement and of the Company's estimate of the average unit prices of such diesel engines, we consider the New Caps for each of the three years ending 31 December, 2006 to be fair and reasonable.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

V. Continuing connected transactions between the Company and Guangxi Liugong Machinery

A. *Terms of the framework agreement and the relevant supplemental agreement*

Pursuant to a framework agreement dated 21 October, 2003 entered into between the Company and Guangxi Liugong Machinery, the Company has agreed to supply high speed diesel engines and parts manufactured by the Company to Guangxi Liugong Machinery of not more than 5,993 units, 6,600 units and 7,300 units for each of the three years ending 31 December, 2005. Subsequently, on 15 September, 2004, the Company and Guangxi Liugong Machinery entered into a supplemental agreement and pursuant to which, the Company has agreed to supply high speed diesel engines and parts manufactured by the Company to Guangxi Liugong Machinery of not more than 10,000 units, 15,000 units and 18,000 units for each of the three years ending 31 December, 2006. Other terms and conditions of the agreement remain unchanged.

B. *Rationale for determining the New Caps*

The following sets out (i) the total consideration received by the Company from Guangxi Liugong Machinery in relation to the sale of diesel engines and parts manufactured by the Company to Guangxi Liugong Machinery for the three years ended 31 December, 2003 and the six months ended 30 June, 2004; (ii) the relevant Existing Caps granted under the Waiver for the two years ending 31 December, 2004 and 2005; and (iii) the proposed New Caps for the three years ending 31 December, 2004, 2005 and 2006:

	Consideration received/estimated to be received by the Company from Guangxi Liugong Machinery (RMB'million)	Increase as compared to the previous financial year (%)
Actual sales:		
1 January, 2001–31 December, 2001 (audited)	36.9	N/A
1 January, 2002–31 December, 2002 (audited)	140.8	282
1 January, 2003–31 December, 2003 (audited)	221.5	57
1 January, 2004–30 June, 2004 (unaudited)	200.0	N/A
Existing Caps granted under the Waiver:		
1 January, 2004–31 December, 2004	259	17
1 January, 2005–31 December, 2005	287	11
Proposed New Caps for each of the three years ending 31 December, 2006:		
1 January, 2004–31 December, 2004	400	81
1 January, 2005–31 December, 2005	600	50
1 January, 2006–31 December, 2006	710	18

Guangxi Liugong Machinery is engaged in the manufacture and repair of construction machines, which require WD615 Engines and parts manufactured by the Company. We notice from the 2003 annual report of Guangxi Liugong Machinery that its turnover for the year ended

31 December, 2003 showed an increase of approximately 51% over that for 2002. In addition, total sales of construction machines amounted to 11,984 units for the whole year of 2003, representing an increase of approximately 57% over that of 2002. According to its latest interim report, the turnover of Guangxi Liugong Machinery for the six months ended 30 June, 2004 showed an increase of approximately 62% over that of the corresponding period in 2003. Total sales of construction machines for the six months ended 30 June, 2004 amounted to 10,070 units, representing an increase of approximately 63% over that of the same period last year.

For the year ended 31 December, 2003, turnover derived from the sale of the Company's WD615 Engines and parts to Guangxi Liugong Machinery accounted for approximately 6.2% of the Company's total turnover. According to the interim results of the Company, the Company's unaudited turnover for the six months ended 30 June, 2004 was approximately RMB2,802 million. We were advised by the Directors that sales derived from the sale of WD615 Engines and parts by the Company to Guangxi Liugong Machinery for the six months ended 30 June, 2004 amounted to approximately RMB200 million, representing approximately 7.1% of the Company's total turnover. The proposed New Cap for the whole year ending 31 December, 2004 of RMB400 million, which has been determined by reference to the estimates prepared by Guangxi Liugong Machinery as to the number of units of diesel engines required by Guangxi Liugong Machinery under the supplemental agreement and of the average unit price of such diesel engines, is the same as the estimated sales of WD615 Engines to Guangxi Liugong Machinery of RMB400 million for the whole year ending 31 December, 2004 on an annualized basis by reference to the six-month actual sales.

The proposed New Cap for the years ending 31 December, 2005 and 2006 of RMB600 million and RMB710 million, respectively, have been determined by reference to the estimates prepared by Guangxi Liugong Machinery as to the number of units of diesel engines required by Guangxi Liugong Machinery under the supplemental agreement in the respective years and the average unit price of such diesel engines. Based on the historical increase in the demand in the construction markets in China, an analysis of which has been set out in the above subparagraph headed "Overview of the market for the construction machines in China" and the increase in over 50% in both the turnover of Guangxi Liugong Machinery and the number of units sold in 2003 and the first six months of 2004, we consider it fair and reasonable for the Company to set the proposed New Caps for the year ending 31 December, 2004, 2005 and 2006 at RMB400 million, RMB600 million and RMB710 million, respectively.

VI. Continuing connected transactions between the Company and Fujian Longgong

A. Terms of the framework agreement and the relevant supplemental agreement

Pursuant to a framework agreement dated 21 October, 2003 entered into between the Company and Fujian Longgong, the Company has agreed to supply heavy-duty high-speed diesel engines and heavy-duty high-speed diesel engine parts to Fujian Longgong of not more than 1,818 units, 1,830 units and 1,850 units for each of the three years ending 31 December, 2005. Subsequently, on 15 September, 2004, the Company and Fujian Longgong entered into a supplemental agreement and pursuant to which, the Company has agreed to supply heavy-duty high-speed diesel engines and relevant parts to Fujian Longgong of not more than 2,500 units, 3,750 units and 4,500 units for each of the three years ending 31 December, 2006. Other terms and conditions of the agreement remain unchanged.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

B. *Rationale for determining the New Caps*

The following sets out (i) the total consideration received by the Company from Fujian Longgong in relation to the sale of diesel engines and parts by the Company to Fujian Longgong for the three years ended 31 December, 2003 and the six months ended 30 June, 2004; (ii) the relevant Existing Caps granted under the Waiver for the two years ending 31 December, 2004 and 2005; and (iii) the proposed New Caps for the three years ending 31 December, 2004, 2005 and 2006:

	Consideration received/estimated to be received by the Company from Fujian Longgong Machinery (RMB'million)	Increase as compared to the previous financial year (%)
Actual sales:		
1 January, 2001–31 December, 2001 (audited)	10.0	N/A
1 January, 2002–31 December, 2002 (audited)	31.5	215
1 January, 2003–31 December, 2003 (audited)	61.2	94
1 January, 2004–30 June, 2004 (unaudited)	43.8	N/A
Existing Caps granted under the Waiver:		
1 January, 2004–31 December, 2004	76	24
1 January, 2005–31 December, 2005	76	Nil
<i>Proposed New Caps for each of the three years ending 31 December, 2006:</i>		
<i>1 January, 2004–31 December, 2004</i>	<i>105</i>	<i>72</i>
<i>1 January, 2005–31 December, 2005</i>	<i>155</i>	<i>48</i>
<i>1 January, 2006–31 December, 2006</i>	<i>185</i>	<i>19</i>

Fujian Longgong is engaged in the manufacture and sale of, among others, wheel-loaders, certain of which require the heavy-duty high-speed diesel engines and the relevant parts manufactured by the Company. Due to the growing demand for construction machines, including wheel-loaders, in the PRC, Fujian Longgong has increased its purchase order for heavy-duty high-speed engines and the relevant parts from the Company.

As stated in the letter from the Board, the Company is a leading manufacturer of the diesel engines in the PRC with market shares in supplying heavy-duty vehicles with load capacity of 15 tonnes (and above) and wheel-loaders with load capacity of 5 tonnes (and above) of approximately 75% and 73%, respectively. This evidences the quality and competitiveness of the Company's Engines generally, and therefore the Company believes that Fujian Longgong will continue to purchase the Company's Engines for the manufacture of its products.

For the year ended 31 December, 2003, turnover derived from the sale of the Company's heavy-duty high-speed diesel engines and parts to Fujian Longgong accounted for approximately 1.7% of the Company's total turnover. According to the interim results of the Company, the Company's unaudited turnover for the six months ended 30 June, 2004 was

approximately RMB2,802 million, of which approximately RMB43.8 million or approximately 1.6% was accounted for by Fujian Longgong. The proposed New Cap for the whole year ending 31 December, 2004 of RMB105 million approximates the estimated sales of RMB87.6 million on an annualized basis to Fujian Longgong by reference to the six-month actual sales.

On the basis that the proposed New Cap for the years ending 31 December, 2005 and 2006 of RMB135 million and RMB165 million, respectively, have been determined by reference to the estimate prepared by Fujian Longgong as to the number of units of diesel engines required by Fujian Longgong under the supplemental agreement in the respective years and the Company's estimate of the average unit price of such engines and in view of the historical increase in the demand of construction machines in recent years, an analysis of which has been set out in the above sub-paragraph headed "Overview of the market for the construction machines in China", we consider it fair and reasonable for the Company to set the proposed New Caps for the year ending 31 December, 2004, 2005 and 2006 at RMB105 million, RMB155 million and RMB185 million, respectively.

VII. Continuing connected transactions between the Company and Shanghai Longgong

A. Terms of the framework agreement and the relevant supplemental agreement

Pursuant to a framework agreement dated 21 October, 2003 entered into between the Company and Shanghai Longgong, the Company has agreed to supply heavy-duty high-speed diesel engines and the relevant parts to Shanghai Longgong of not more than 4,813 units, 4,820 units and 4,830 units for each of the three years ending 31 December, 2005. Subsequently on 15 September, 2004, the Company and Shanghai Longgong entered into a supplemental agreement and pursuant to which, the Company has agreed to supply heavy-duty high-speed diesel engines and the relevant parts to Shanghai Longgong of not more than 7,600 units, 11,250 units and 13,500 units for each of the three years ending 31 December, 2006. Other terms and conditions of the agreement remain unchanged.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

B. *Rationale for determining the New Caps*

The following sets out (i) the total consideration received by the Company from Shanghai Longgong in relation to the sale of diesel engines and parts by the Company to Shanghai Longgong for the three years ended 31 December, 2003 and the six months ended 30 June, 2004; (ii) the relevant Existing Caps granted under the Waiver for the two years ending 31 December, 2004 and 2005; and (iii) the proposed New Caps for the three years ending 31 December, 2004, 2005 and 2006:

	Consideration received/estimated to be received by the Company from Shanghai Longgong (RMB' million)	Increase as compared to the previous financial year (%)
Actual sales:		
1 January, 2001–31 December, 2001 (audited)	23.6	N/A
1 January, 2002–31 December, 2002 (audited)	58.4	148
1 January, 2003–31 December, 2003 (audited)	155.2	166
1 January, 2004–30 June, 2004 (unaudited)	131.4	N/A
Existing Caps granted under the Waiver:		
1 January, 2004–31 December, 2004	198	28
1 January, 2005–31 December, 2005	199	1
<i>Proposed New Caps for each of the three years ending 31 December, 2006:</i>		
<i>1 January, 2004–31 December, 2004</i>	<i>315</i>	<i>103</i>
<i>1 January, 2005–31 December, 2005</i>	<i>470</i>	<i>49</i>
<i>1 January, 2006–31 December, 2006</i>	<i>555</i>	<i>18</i>

Shanghai Longgong is engaged in the manufacture and sale of, among others, construction machines, certain of which require the heavy-duty high-speed diesel engines and the relevant parts manufactured by the Company. Due to the growing demand for construction machines in the PRC, Shanghai Longgong has increased its purchase order for heavy-duty high-speed diesel engines from the Company.

The proposed New Caps for each of the years ending 31 December, 2004, 2005 and 2006 of RMB315 million, RMB470 million and RMB555 million, respectively, have been determined by reference to the estimate prepared by Shanghai Longgong as to the number of units of diesel engines required by Shanghai Longgong under the supplemental agreement in the respective years and the Company's estimate of the average unit price of such engines. On this basis, we consider it fair and reasonable for the Company to set the proposed New Caps for the year ending 31 December, 2004, 2005 and 2006 at RMB315 million, RMB470 million and RMB555 million, respectively.

3. Conditions of the proposed New Caps

There are certain conditions of the annual cap pursuant to the Listing Rules, in particular, the restriction of the value of the Non-exempt Continuing Connected Transactions by way of the annual cap for each of the financial years ending 31 December, 2006 and the ongoing review by the independent non-executive Directors and auditors of the Company of the terms of the Non-exempt Continuing Connected Transactions and the relevant New Caps not being exceeded, details of which must be included in the Company's published annual report and accounts for each of the financial years concerned. In addition, pursuant to the Listing Rules, the Company shall publish an announcement if it knows or has reason to believe that the independent non-executive directors and/or the auditors will not be able to confirm the terms of the Non-exempt Continuing Connected Transactions or the relevant New Caps not being exceeded. We are of the view that there are appropriate measures in place to govern the conduct of the Non-exempt Continuing Connected Transactions and safeguard the interests of the independent shareholders of the Company.

RECOMMENDATION

Having considered the above principal factors and reasons, in particular:

- (i) the background of and the reasons for each of the Non-exempt Continuing Connected Transactions;
- (ii) the sponsor of the Company's initial listing application had expressed its view in the Prospectus that the Continuing Connected Transactions, i.e. including the Non-exempt Continuing Connected Transactions, were fair and reasonable as far as the Shareholders as a whole were concerned and the transactions thereunder were in the ordinary and usual course of the Company's business;
- (iii) internal control procedures, including the ongoing review by the independent non-executive Directors and the auditors of the Company of the terms and annual caps for each of the Non-exempt Continuing Connected Transactions, are in place to monitor and to compare the terms of the Non-exempt Continuing Connected Transactions;
- (iv) the proposed New Caps have been determined by reference to the additional sale or purchase orders to be transacted by the Company with the relevant parties, or the actual value of transactions recorded for the six months ended 30 June, 2004, and
- (v) the revision in the proposed New Caps as compared to the Existing Caps appears to be in line with the pace of business expansion of the Company, which recorded an annual growth of approximately 120% and 89% in its business turnover for the year ended 31 December, 2002 and 2003, respectively,

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

we are of the opinion that the proposed New Caps for each of the Non-exempt Continuing Connected Transactions are fair and reasonable so far as the Company and the Shareholders are concerned. Accordingly, we would advise the Independent Shareholders to vote in favour of the ordinary resolutions to approve the proposed New Caps under each of the Non-exempt Continuing Connected Transactions at the EGM.

Yours faithfully,
For and on behalf of
AMS Corporate Finance Limited
Jinny Mok
Director



WEICHAI

潍柴动力股份有限公司
WEICHAI POWER CO., LTD.

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

(Stock Code: 2338)

NOTICE IS HEREBY GIVEN (the “**Notice**”) that an extraordinary general meeting (the “**Extraordinary General Meeting**”) of Weichai Power Co., Ltd. (the “**Company**”) will be held at 10:00 a.m. on Wednesday, 15 December, 2004, at 26 Minsheng East Street, Weifang, Shandong Province, the People's Republic of China, for the purpose of considering and, if thought fit, passing (with or without amendments) the following resolutions as ordinary resolutions and special resolution (as the case may be) of the Company:

ORDINARY RESOLUTIONS

1. “**THAT** the New Cap (as defined in the circular to the shareholders of Weichai Power Co., Ltd. (the “**Company**”) of which this resolution forms part (the “**Circular**”)) referred to in the section headed “D. I. 1. Provision of general services by Weichai Factory to the Company” in the “Letter from the Board” contained in the Circular relating to the provision of general services by Weichai Factory (as defined in the Circular) to the Company in the amount of RMB18 million for the year ending 31 December, 2006 be and is hereby approved”;
2. “**THAT** the New Cap (as defined in the circular to the shareholders of Weichai Power Co., Ltd. (the “**Company**”) of which this resolution forms part (the “**Circular**”)) referred to in the section headed “D. I. 2. Supply and/or connection of utilities by Weichai Factory to the Company” in the “Letter from the Board” contained in the Circular relating to the supply and/or connection of utilities by Weichai Factory (as defined in the Circular) to the Company in the amount of RMB170 million for the year ending 31 December, 2006 be and is hereby approved”;
3. “**THAT** the New Caps (as defined in the circular to the shareholders of Weichai Power Co., Ltd. (the “**Company**”) of which this resolution forms part (the “**Circular**”)) referred to in the section headed “D. I. 4. Supply of WD615 Engines by the Company to Weichai Factory” in the “Letter from the Board” contained in the Circular relating to the supply of WD615 Engines (as defined in the Circular) by the Company to Weichai Factory (as defined in the Circular) in the amounts of RMB90 million, RMB115 million and RMB115 million for each of the 3 years ending 31 December, 2006, respectively, be and are hereby approved”;
4. “**THAT** the New Caps (as defined in the circular to the shareholders of Weichai Power Co., Ltd. (the “**Company**”) of which this resolution forms part (the “**Circular**”)) referred to in the section headed “D. I. 5. Supply of finished diesel engine parts by Weichai Factory to the Company” in the “Letter from the Board” contained in the Circular

NOTICE OF EXTRAORDINARY GENERAL MEETING

relating to the supply of finished diesel engine parts by Weichai Factory (as defined in the Circular) to the Company in the amounts of RMB115 million and RMB180 million for each of the 2 years ending 31 December, 2006, respectively, be and are hereby approved”;

5. “**THAT** the New Caps (as defined in the circular to the shareholders of Weichai Power Co., Ltd. (the “**Company**”) of which this resolution forms part (the “**Circular**”)) referred to in the section headed “D. I. 6. Supply of semi-finished diesel engine parts by the Company to Weichai Factory” in the “Letter from the Board” contained in the Circular relating to the supply of semi-finished diesel engine parts by the Company to Weichai Factory (as defined in the Circular) in the amounts of RMB175 million, RMB200 million and RMB200 million for each of the 3 years ending 31 December, 2006, respectively, be and are hereby approved”;
6. “**THAT** the New Caps (as defined in the circular to the shareholders of Weichai Power Co., Ltd. (the “**Company**”) of which this resolution forms part (the “**Circular**”)) referred to in the section headed “D. I. 7. Provision of sales and warranty period repair services by the Company to Weichai Factory” in the “Letter from the Board” contained in the Circular relating to the provision of sales and warranty period repair services by the Company to Weichai Factory (as defined in the Circular) in the amounts of RMB16 million, RMB16 million and RMB16 million for each of the 3 years ending 31 December, 2006, respectively, be and are hereby approved”;
7. “**THAT** the New Cap (as defined in the circular to the shareholders of Weichai Power Co., Ltd. (the “**Company**”) of which this resolution forms part (the “**Circular**”)) referred to in the section headed “D. II. 1. Provision of general services by Chongqing Weichai to the Company” in the “Letter from the Board” contained in the Circular relating to the provision of general services by Chongqing Weichai (as defined in the Circular) to the Company in the amount of RMB16 million for the year ending 31 December, 2006 be and is hereby approved”;
8. “**THAT** the New Cap (as defined in the circular to the shareholders of Weichai Power Co., Ltd. (the “**Company**”) of which this resolution forms part (the “**Circular**”)) referred to in the section headed “D. II. 2. Supply and/or connection of utilities by Chongqing Weichai to the Company” in the “Letter from the Board” contained in the Circular relating to the supply and/or connection of utilities by Chongqing Weichai (as defined in the Circular) to the Company in the amount of RMB90 million for the year ending 31 December, 2006 be and is hereby approved”;
9. “**THAT** the New Cap (as defined in the circular to the shareholders of Weichai Power Co., Ltd. (the “**Company**”) of which this resolution forms part (the “**Circular**”)) referred to in the section headed “D. II. 4. Provision of processing services by Chongqing Weichai to the Company” in the “Letter from the Board” contained in the Circular relating to the provision of processing services by Chongqing Weichai (as defined in the Circular) to the Company in the amount of RMB164 million for the year ending 31 December, 2006 be and is hereby approved”;
10. “**THAT** the New Caps (as defined in the circular to the shareholders of Weichai Power Co., Ltd. (the “**Company**”) of which this resolution forms part (the “**Circular**”)) referred to in the table headed “Supply of diesel engines and finished diesel engine parts by the Company to CHDTGL and/or its associates” in the section headed “D. III. Continuing

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connected transactions between the Company and the China Heavy Duty Trust Group” in the “Letter from the Board” contained in the Circular relating to the supply of diesel engines and finished diesel engine parts by the Company to CHDTGL (as defined in the Circular) and/or its associates in the amounts of RMB1,800 million, RMB2,600 million and RMB4,100 million for each of the 3 years ending 31 December, 2006, respectively, be and are hereby approved”;

11. “**THAT** the New Caps (as defined in the circular to the shareholders of Weichai Power Co., Ltd. (the “**Company**”) of which this resolution forms part (the “**Circular**”)) referred to in the table headed “Supply of finished and semi-finished diesel engine parts by CHDTGL and/or its associates to the Company” in the section headed “D. III. Continuing connected transactions between the Company and the China Heavy Duty Trust Group” in the “Letter from the Board” contained in the Circular relating to the supply of finished and semi-finished diesel engine parts by CHDTGL (as defined in the Circular) and/or its associates to the Company in the amounts of RMB110 million and RMB165 million for each of the 2 years ending 31 December, 2006, respectively, be and are hereby approved”;
12. “**THAT** the New Cap (as defined in the circular to the shareholders of Weichai Power Co., Ltd. (the “**Company**”) of which this resolution forms part (the “**Circular**”)) referred to in the section headed “D. IV. Continuing connected transactions between the Company and Weichai Gas” in the “Letter from the Board” contained in the Circular relating to the supply of WD615 Engines (as defined in the Circular) and related parts by the Company to Weichai Gas (as defined in the Circular) in the amount of RMB140 million for the year ending 31 December, 2006 be and is hereby approved”;
13. “**THAT** the New Caps (as defined in the circular to the shareholders of Weichai Power Co., Ltd. (the “**Company**”) of which this resolution forms part (the “**Circular**”)) referred to in the section headed “D. V. Continuing connected transactions between the Company and Guangxi Liugong Machinery” in the “Letter from the Board” contained in the Circular relating to the supply of WD615 Engines (as defined in the Circular) and parts by the Company to Guangxi Liugong Machinery (as defined in the Circular) in the amounts of RMB400 million, RMB600 million and RMB710 million for each of the 3 years ending 31 December, 2006, respectively, be and are hereby approved”;
14. “**THAT** the New Caps (as defined in the circular to the shareholders of Weichai Power Co., Ltd. (the “**Company**”) of which this resolution forms part (the “**Circular**”)) referred to in the section headed “D. VI. Continuing connected transactions between the Company and Fujian Longgong” in the “Letter from the Board” contained in the Circular relating to the supply of diesel engines and parts by the Company to Fujian Longgong (as defined in the Circular) in the amounts of RMB105 million, RMB155 million and RMB185 million for each of the 3 years ending 31 December, 2006, respectively, be and are hereby approved”;
15. “**THAT** the New Caps (as defined in the circular to the shareholders of Weichai Power Co., Ltd. (the “**Company**”) of which this resolution forms part (the “**Circular**”)) referred to in the section headed “D. VII. Continuing connected transactions between the Company and Shanghai Longgong” in the “Letter from the Board” contained in the Circular relating to the supply of diesel engines and parts by the Company to Shanghai

NOTICE OF EXTRAORDINARY GENERAL MEETING

Longgong (as defined in the Circular) in the amounts of RMB315 million, RMB470 million and RMB555 million for each of the 3 years ending 31 December, 2006, respectively, be and are hereby approved”;

16. “**THAT** Mr. Fang Zhong Chang (房忠昌) be appointed as an independent non-executive director of Weichai Power Co., Ltd. (the “**Company**”) with effect upon the conclusion of this Extraordinary General Meeting for a period up to (and including) the date of the annual general meeting of the Company for the financial year ending 31 December, 2004”;
17. “**THAT** the board of directors of Weichai Power Co., Ltd. (the “**Company**”) be and is hereby authorized to take all such actions and steps and execute all documents or deeds as it may consider necessary or desirable to give full effect to the resolutions contained in the circular to the shareholders of the Company of which this resolution forms part, or to implement all agreements entered into by the Company in relation to the matters referred to in the aforesaid resolutions and all such agreements entered into be and are hereby ratified, confirmed and approved”;

SPECIAL RESOLUTION

18. “**THAT**, subject to Weichai Power Co., Ltd. (the “**Company**”) obtaining the requisite approval of, and effecting the requisite filing at, the relevant governmental and/or administrative body, if any, the registered address of the Company be changed to “中國山東省濰坊市高新技術產業開發區福壽東街甲197號(郵政編碼：261061)”；and that the registered address of the Company as stated in Article 3 of the Articles of Association of the Company (the “**Articles**”) shall be amended by deleting the words “中國山東省濰坊市民生東街26號(郵政編碼：261001)” and substituting “中國山東省濰坊市高新技術產業開發區福壽東街甲197號(郵政編碼：261061)” in their place; that the Articles as amended and approved by 中國國務院國有資產監督管理委員會 (State-owned Assets Supervision and Administration Commission of the State Council) and referred to in the announcement of the Company dated 25 October, 2004 be and are hereby ratified and confirmed; and that the Board of Directors of the Company be and is hereby authorized to attend to the relevant business registration procedures for effecting the aforesaid change in registered address of the Company; and the Board of Directors be and is hereby authorized to attend to other matters relevant to the aforesaid change as permitted under the laws, regulations and the Articles of Association of the Company”.

By Order of the Board of Directors
Weichai Power Co., Ltd.

Tang Xuguang

Chairman and Chief Executive Officer

27 October, 2004

NOTICE OF EXTRAORDINARY GENERAL MEETING

Principal place of business in Hong Kong:

Unit 2409

Wing On Centre

111 Connaught Road Central

Hong Kong

Registered office:

26 Minsheng East Street

Weifang

Shandong Province

The People's Republic of China

Notes:

- (A) The Company will not process registration of transfers of H Shares from Monday, 15 November, 2004 to Wednesday, 15 December, 2004 (both days inclusive). Holders of H Shares whose names appear on the register of H Shares of the Company kept at Computershare Hong Kong Investor Services Limited as at Wednesday, 15 December, 2004 are entitled to attend and vote at the Extraordinary General Meeting following completion of the registration procedures.

To qualify for attendance and vote at the Extraordinary General Meeting, documents on transfers of H Shares must be lodged with the Company's H Share registrar, not later than 4:00 p.m. on Friday, 12 November, 2004. The address of the Company's H Share registrar is as follows:

Computershare Hong Kong Investor Services Limited

Shops 1712–1716,

17th Floor, Hopewell Centre

183 Queen's Road East

Hong Kong

- (B) Holders of H Shares, domestic shares and foreign shares of the Company intending to attend the Extraordinary General Meeting should complete and return the reply slip for attending the Extraordinary General Meeting personally, by facsimile or by post to the Secretary to the Board of the Company 20 days before the Extraordinary General Meeting, namely, on or before Thursday, 25 November, 2004.

The contact details of the Secretary to the Board of the Company are as follows:

Securities Department

26 Minsheng East Street

Weifang

Shandong Province

The People's Republic of China

Postal Code : 261001

Telephone No. : 86 (536) 8197068

Facsimile No. : 86 (536) 8197073

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- (C) Each holder of H Shares entitled to attend and vote at the Extraordinary General Meeting may, by completing the form of proxy of the Company, appoint one or more proxies to attend and vote at the Extraordinary 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 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 authorized by the relevant shareholder in writing (a “power of attorney”). If the form of proxy is signed by the person authorized by the relevant shareholder as aforesaid, the relevant power of attorney and other relevant documents of authorization (if any) must be notarized. If a corporate shareholder appoints a person other than its legal representative to attend the Extraordinary 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 authorized 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, 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 Extraordinary General Meeting.
- (F) Each holder of domestic shares or foreign shares (excluding H Shares) who is entitled to attend and vote at the Extraordinary General Meeting may also, by completing the form of proxy of the Company, appoint one or more proxies to attend and vote at the Extraordinary 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), 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 Extraordinary General Meeting. The address of the Secretary to the Board of the Company is stated in note (B) above.
- (G) A shareholder or his proxy should produce proof of identity when attending the Extraordinary General Meeting. If a corporate shareholder’s legal representative or any other person authorized by the board of directors or other governing body of such corporate shareholder attends the Extraordinary 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 authorization 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 Extraordinary General Meeting shall be given in writing and, notice in writing by that person of his consent to be elected as director shall be, lodged at the registered office of the Company at 26 Minsheng East Street, 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 Extraordinary General Meeting and end on (and exclude) the date that is seven (7) days before the date of the Extraordinary General Meeting.
- (I) The Extraordinary General Meeting is expected to last for half a day. Shareholders who attend the Extraordinary General Meeting shall bear their own travelling and accommodation expenses.

1. RESPONSIBILITY STATEMENT

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

2. DISCLOSURE OF INTERESTS

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

Name of Director	Personal interest	Corporate interest	Total	Capacity	Type of interest
Tan Xuguang	4,300,000 (Note 1)	Nil	4,300,000	Beneficial owner	Long
Xu Xinyu	1,000,000 (Note 1)	Nil	1,000,000	Beneficial owner	Long
Sun Shaojun	1,000,000 (Note 1)	Nil	1,000,000	Beneficial owner	Long
Zhang Quan	1,000,000 (Note 1)	Nil	1,000,000	Beneficial owner	Long
Yeung Sai Hong (Note 3)	Nil	23,500,000 (Note 2)	23,500,000	Interest of corporation controlled by this person	Long
Li San Yim (Note 4)	Nil	21,500,000 (Note 1)	21,500,000	Interest of corporation controlled by this person	Long
Julius G. Kiss (Note 5)	Nil	10,750,000 (Note 2)	10,750,000	Interest of corporation controlled by this person	Long
Name of supervisor					
Wang Yong	350,000 (Note 1)	Nil	350,000	Beneficial owner	Long

Notes:

1. These are Domestic Shares of the Company. Domestic Shares are ordinary shares issued by the Company, with a Renminbi-denominated par value of RMB1.00 each, which are subscribed for and paid up in Renminbi or credited as fully paid up.
2. These are Foreign Shares of the Company. Foreign Shares are ordinary shares issued by the Company, with a Renminbi-denominated par value of RMB1.00 each, which are subscribed for and paid up in a currency other than Renminbi.

- Yeung Sai Hong, a Director, was directly and indirectly interested in the entire issued share capital of Peterson, which in turn held 23,500,000 Domestic Shares.
- Li San Yim, a Director, and his wife, Ni Yinying, were interested in 69.16% and 30.84%, respectively in the capital of Fujian Longgong, which in turn held 21,500,000 Domestic Shares, and therefore Li San Yim was deemed to be interested in Ni Yinying's entire interest in Fujian Longgong.
- Julius G. Kiss, a Director, was indirectly interested in the entire capital of IVM, which in turn held 10,750,000 Foreign Shares of the Company.
- The Company did not have any subsidiaries, nor did it directly or indirectly hold interest in any entities that would constitute associated companies of the Company.

3. SUBSTANTIAL SHAREHOLDERS

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

Name	Number of 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 (Weifang Diesel Engine Works)	77,647,900	38.16%	Nil	—	Beneficial owner		Long
中國重型汽車集團有限公司 (China Heavy Duty Truck Group Co. Ltd.) (Note 1)	77,647,900	38.16%	Nil	—	Interest of corporation controlled by this entity		Long
Peterson Holdings Company Limited (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 Longyan Construction Machinery (Group) Company Limited)	21,500,000	10.57%	Nil	—	Beneficial owner		Long
倪銀英 (Ni Yinying) (Note 3)	21,500,000	10.57%	Nil	—	Spouse		Long

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
潍坊市投资公司 (Weifang Investment Company) (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 Chuangxin Investment Group Company Limited)	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 Technical Consultants Wien Gesellschaft m.b.H.	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	—	15,034,000	11.88%	Investment Manager	Long
CITIC Group	Nil	—	7,586,000	6.00%	Interest of corporation controlled by this entity	Long
CITIC International Financial Holdings Limited (Note 11)	Nil	—	7,550,000	5.97%	Interest of corporation controlled by this entity	Long
CITIC Capital Markets Holdings Limited (Note 11)	Nil	—	7,464,000	5.90%	Interest of corporation controlled by this entity	Long
CITIC Pacific Limited (Note 11)	Nil	—	7,464,000	5.90%	Interest of corporation controlled by this entity	Long

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
Forever Glory Holdings Ltd. (Note 11)	Nil	—	7,464,000	5.90%	Interest of corporation controlled by this entity	Long
Golden Gateway Enterprises Inc. (Note 11)	Nil	—	7,464,000	5.90%	Interest of corporation controlled by this entity	Long

Notes:

- 中國重型汽車集團有限公司 (China Heavy Duty Truck Group Co. Ltd.), a State-owned enterprise, was the holding company of 濰坊柴油機廠 (Weifang Diesel Engine Works) (“Weichai Factory”) and held the entire capital of Weichai Factory. Mr. Tan Xuguang (a Director) was also the general manager of Weichai Factory.
- Yeung Sai Hong, a non-executive Director, was beneficially interested in the entire issued share capital of Tingho Nominees Limited, which in turn owned 100% of Advantage Investment Corporation Limited, which was interested in 90% of the entire issued share capital of Peterson Holdings Company Limited.
- The capital of 福建龍岩工程機械(集團)有限公司 (Fujian Longyan Construction Machinery (Group) Company Limited) (“Fujian Longgong”) was held as to approximately 69.16% by Li San Yim (a non-executive Director) and as to approximately 30.84% by 倪銀英 (Ni Yinying). Ni Yinying was Li San Yim’s wife, and therefore she was deemed to be interested in Li San Yim’s entire interest in Fujian Longgong.
- 濰坊市投資公司 (Weifang Investment Company) was a State-owned enterprise.
- 深圳市投資管理公司 (Shenzhen Investment Management Company) was interested in approximately 33.73% of the capital of 深圳市創新投資集團有限公司有限公司 (Shenzhen Chuangxin Investment Group Company Limited).
- ADTECH Advanced Technologies AG was wholly owned by Julius G. Kiss, a non-executive Director, and it was interested in the entire capital of IVM Technical Consultants Wien Gesellschaft m.b.H.
- Domestic Shares are ordinary shares issued by the Company, with a Renminbi-denominated par value of RMB1.00 each, which are subscribed for and paid up in Renminbi or credited as fully paid up.
- Foreign Shares are ordinary shares issued by the Company, with a Renminbi-denominated par value of RMB1.00 each, which are subscribed for and paid up in a currency other than Renminbi.
- H Shares are overseas listed Foreign Shares in the share capital of the Company, with a Renminbi-denominated par value of RMB1.00 each and are subscribed for and traded in Hong Kong dollars, and they are currently listed on the Main Board of the Stock Exchange.
- 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.

11. CITIC Pacific Limited wholly owned Golden Gateway Enterprises Inc., which in turn wholly owned Forever Glory Holdings Ltd. CITIC Group was interested in 53% of the issued shares of CITIC International Financial Holdings Limited. CITIC Capital Markets Holdings Limited was owned as to 50% by CITIC International Financial Holdings Limited and as to 50% by Forever Glory Holdings Ltd.

4. ARRANGEMENTS AND MATTERS CONCERNING DIRECTORS

- (a) As at the Latest Practicable Date, none of the Directors was interested, directly or indirectly, in any assets which had, since the date of the latest published audited accounts of the Company were made up, been acquired or disposed of by or leased to the Company, or were proposed to be acquired or disposed of by or leased to the Company.
- (b) As at the Latest Practicable Date, none of the Directors was materially interested in any contract or arrangement subsisting at the Latest Practicable Date and entered into with the Company and which was significant in relation to the business of the Company. Mr. Tan Xuguang, an executive Director, is a deputy general manager of CHDTGL. CHDTGL is the holding company of 杭州汽車發動機廠 (Hangzhou Motor Engine Factory) (“**Hangqi**”), which is principally engaged in the manufacture of diesel engines mainly used in heavy-duty trucks, large, medium and small-sized coaches/passenger cars, power generators and vessels. Please refer to the Prospectus of the Company for details of the business of Hangqi.
- (c) Each of the executive Directors has entered into a service contract with the Company for a term commencing on 24 November, 2003 and ending on 17 December, 2005. Terms of the service contracts of such executive Directors are in all material respects the same. Pursuant to the respective service contracts of the executive Directors, the aggregate annual remuneration (including salaries, allowance and bonus (if any)) paid to Tan Xuguang, Xu Xinyu, Sun Shaojun and Zhang Quan for the year ended 31 December, 2003 was RMB1,130,000. Each of the independent non-executive Directors has entered into an appointment letter with the Company for a term ending on the next annual general meeting of the Company. Terms of the appointment letters of such independent non-executive Directors are in all material respects the same. Pursuant to the Articles of Association, the remuneration of the Directors will be determined by the shareholders of the Company in the general meeting. None of the non-executive Directors or the independent non-executive Directors has entered into any service contract (excluding contracts expiring or determinable by the Company within one year without payment of compensation (other than statutory compensation)) with the Company.
- (d) Any proposal to appoint any person to the office of Director at the EGM shall be given in writing and, notice in writing by that person of his consent to be elected as Director shall be, lodged at the registered office of the Company at 26 Minsheng East Street, 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 circular and end on (and exclude) the date that is seven (7) days before the date of the EGM.

5. MATERIAL ADVERSE CHANGE

The Directors are not aware of any material adverse change in the financial or trading position of the Company since 31 December, 2003, the date to which the latest audited financial statements of the Company were made up.

6. EXPERT

- (a) The Independent Financial Adviser is a corporation deemed licensed under the transitional arrangement to carry on type 4 (advising on securities), type 6 (advising on corporate finance) and type 9 (asset management) regulated activities under the SFO.
- (b) As at the Latest Practicable Date, the Independent Financial Adviser did not have any shareholding in the Company or any right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in the Company, nor did it have any interest, direct or indirect, in any assets which had, since the date to which the latest published audited accounts of the Company were made up, been acquired or disposed of by or leased to the Company, or were proposed to be acquired or disposed of by or leased to the Company. As at the Latest Practicable Date, the Company did not have any subsidiary.
- (c) The Independent Financial Adviser has given and has not withdrawn its written consent to the issue of this circular with the inclusion herein of its letter and references to its name in the forms and contexts in which they appear.

7. GENERAL

- (a) The secretary of the Company is Mr. Zhang Yuanfu. Mr. Zhang is an associate member of the Hong Kong Institute of Certified Public Accountants.
- (b) The registered office of the Company is at 26 Minsheng East Street, Weifang, Shandong Province, the People's Republic of China.
- (c) The H share registrar and transfer office of Weichai in Hong Kong is Computershare Hong Kong Investor Services Limited at Shops 1712–1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong.
- (d) In the event of inconsistency, the English text of this circular shall prevail over the Chinese text.

8. DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents will be available for inspection during normal business hours on any weekday (except public holidays) at the office of Richards Butler situated at 20th Floor, Alexandra House, 16–20 Chater Road, Central, Hong Kong, from 27 October, 2004 to 11 November, 2004 (both days inclusive):

- (a) the service contracts of the executive Directors;
- (b) the letter from Independent Financial Adviser as set out in this circular;
- (c) the written consent from Independent Financial Adviser referred to in the section headed “Expert” in this appendix;
- (d) the letter from the Independent Board Committee, the text of which is set out in this circular; and
- (e) the Original Agreement and the Supplemental Agreements.