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# THIS CIRCULAR IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION

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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 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.

The Stock Exchange of Hong Kong Limited takes no responsibility for the contents of this circular, makes no representation as to its accuracy or completeness and expressly disclaims any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this circular.

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**WEICHAI**

潍柴动力股份有限公司

**WEICHAI POWER CO., LTD.**

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

**(Stock Code: 2338)**

**VARIATION OF EXISTING  
CONTINUING CONNECTED TRANSACTIONS  
NEW NON-EXEMPT CONTINUING CONNECTED TRANSACTIONS  
AND  
PROPOSED NEW ELECTION AND RE-ELECTION OF  
THE DIRECTORS AND THE SUPERVISORS**

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



**AMS Corporate Finance Limited**

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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 Monday, 5th December, 2005 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 15th November, 2005 (Tuesday).

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.

20th October, 2005

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## DEFINITIONS

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

“AGM”	the annual general meeting of the Company held on 27th May, 2005
“AGM Resolutions”	the resolutions passed by the Shareholders at the AGM in relation to the Existing INED Term
“Announcement”	the announcement of the Company dated 15th September, 2004 in respect of, inter alia, the Existing Continuing Connected Transactions
“Articles of Association” or “Articles”	the articles of association of the Company
“associates”	has the meaning ascribed to it under the Listing Rules
“Board”	the board of Directors
“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
“CHDTGL”	中國重型汽車集團有限公司 (China Heavy Duty Truck Group Co., Ltd.), a PRC state-owned enterprise
“Chongqing Branch”	the Company’s branch 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 is wholly owned by Weichai Factory
“2004 Circular”	the circular of the Company dated 27th October, 2004 in respect of, inter alia, the Existing Continuing Connected Transactions
“COPN”	重慶油泵油咀廠 (Chongqing Fuel System Plant), a legal person established in the PRC and is wholly owned by CHDTGL
“COPN Supply Agreement”	the agreement dated 21st September, 2005 entered into between the Company and COPN in relation to the sale of oil pumps and nozzles by COPN to the Company
“CW Continuing Connected Transactions”	the transactions under the CW General Services Agreement, the CW Utility Services Agreement and the Processing Services Agreement, respectively which constitute non-exempt continuing connected transactions of the Company under the Listing Rules and have been approved by the Shareholders in accordance with the Listing Rules
“CW General Services Agreement”	the agreement dated 17th November, 2003 as amended by the supplemental agreement dated 15th September, 2004 entered into between the Company and Chongqing Weichai in relation to the provision of certain general services by Chongqing Weichai to Chongqing Branch

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## DEFINITIONS

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“CW General Services Supplemental Agreement”	the agreement entered into between the Company and Chongqing Weichai on 21st September, 2005 to amend and supplement the CW General Services Agreement
“CW Utility Services Agreement”	the agreement dated 17th November, 2003 as amended by the supplemental agreement dated 15th September, 2004 entered into between the Company and Chongqing Weichai in relation to the provision of certain utility and energy services by Chongqing Weichai to Chongqing Branch
“CW Utility Services Supplemental Agreement”	the agreement entered into between the Company and Chongqing Weichai on 21st September, 2005 to amend and supplement the CW Utility Services Agreement
“Director(s)”	director(s) of the Company
“EGM”	the extraordinary general meeting of the Company to be held on 5th December, 2005
“Existing Continuing Connected Transactions”	the WF Continuing Connected Transactions and the CW Continuing Connected Transactions
“Existing Cap”	the maximum annual cap for the transactions under the WF General Services Agreement, the WF Utility Services Agreement, the CW General Services Agreement, the CW Utility Services Agreement and the Processing Services Agreement, respectively for each of the two years ending 31st December, 2006 as set out in the Announcement and the 2004 Circular and as approved by the Shareholders on 15th December, 2004
“Existing INED Term”	the existing term of office of each of the independent non-executive Directors which commenced on the conclusion of the AGM and will expire on (i) the conclusion of the Next AGM; or (ii) the conclusion of the extraordinary general meeting of the Company convened prior to the Next AGM at which he is re-appointed as an independent non-executive Director for a term beyond the conclusion of the Next AGM (whichever is the earlier)
“H Shares”	the overseas listed foreign shares 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
“Hangqi”	杭州汽車發動機廠 (Hangzhou Motor Engine Factory), a legal person established in the PRC and is wholly owned by CHDTGL
“Hangqi Purchases Agreement”	the agreement dated 21st September, 2005 entered into between the Company and Hangqi in relation to the sale of oil pumps by the Company to Hangqi

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## DEFINITIONS

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“Hangqi Supply Agreement”	the agreement dated 21st September, 2005 entered into between the Company and Hangqi in relation to the sale of diesel engines by Hangqi to the Company
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC
“HK\$” or “HK Dollar”	Hong Kong dollar, the lawful currency of Hong Kong
“Independent Board Committee”	a committee of the Board comprising Mr. Zhang Xiao Yu, Mr. Koo Fook Sun, Louis and Mr. Fang Zhong Chang, being the independent non-executive Directors
“Independent Financial Adviser”	AMS Corporate Finance Limited, a corporation licensed to carry on type 4 (advising on securities), type 6 (advising on corporate finance) and type 9 (asset management) regulated activities under the SFO and is the independent financial adviser appointed by the Company to advise the Independent Board Committee and the Independent Shareholders in respect of the WF General Services Supplemental Agreement, the WF Utility Services Supplemental Agreement, the CW General Services Supplemental Agreement, CW Utility Services Supplemental Agreement, the Processing Services Supplemental Agreement, the New Non-exempt Continuing Connected Transactions Agreements and the Transaction Caps
“Independent Shareholders”	Shareholders (other than Weichai Factory, Mr. Tan Xuguang and their respective associates) who are not required to abstain from voting at the EGM in relation to the resolutions for approving the variation of the Existing Continuing Connected Transactions, the New Non-exempt Continuing Connected Transactions Agreements and the Transaction Caps
“Latest Practicable Date”	14th October, 2005, 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 Non-exempt Continuing Connected Transactions”	being those transactions under each of the COPN Supply Agreement, the WD Sales and Warranty Agreement, the Hangqi Purchases Agreement and the Hangqi Supply Agreement, the proposed Transaction Caps for which exceed the de minimis level under Rule 14A.34 of the Listing Rules and are therefore subject to the reporting, announcement and independent shareholders’ approval requirements under the Listing Rules
“New Non-exempt Continuing Connected Transactions Agreements”	the COPN Supply Agreement, the WD Sales and Warranty Agreement, the Hangqi Purchases Agreement and the Hangqi Supply Agreement

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## DEFINITIONS

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“Next AGM”	the next annual general meeting of the Company to be held after the date of the AGM in accordance with the Articles of Association
“PRC” or “China”	the People’s Republic of China, which, for the purpose of this circular, unless otherwise specified, excludes Hong Kong, the Macau Special Administrative Region of the PRC and Taiwan
“Previous Transactions”	the transactions between the Company and Weichai Factory and its associates as more particularly set out in the Announcement and the 2004 Circular
“Processing Services Agreement”	the agreement dated 17th November, 2003 as amended by the supplemental agreement dated 15th September, 2004 entered into between the Company and Chongqing Weichai in relation to the provision of processing services by Chongqing Weichai to Chongqing Branch
“Processing Services Supplemental Agreement”	the agreement entered into between the Company and Chongqing Weichai on 21st September, 2005 to amend and supplement the Processing Services Agreement
“Prospectus”	the prospectus dated 26th February, 2004 issued by the Company relating to the initial public offering and listing of its H Shares on the Stock Exchange
“RMB”	Renminbi, the lawful currency of the PRC
“SFO”	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong)
“Share(s)”	shares of the Company
“Shareholders”	holder(s) of Share(s)
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Supervisor(s)”	the supervisor(s) of the Company
“Supervisory Committee”	the supervisory committee of the Company
“Transaction Caps”	the maximum annual cap for the transactions under each of the COPN Supply Agreement, the WD Sales and Warranty Agreement, the Hangqi Purchases Agreement and the Hangqi Supply Agreement for the period from 1st September, 2005 up to 31st December, 2005 and for the year from 1st January, 2006 up to 31st December, 2006 as more particularly set out in the paragraph headed “Aggregate Annual Value” in the section headed “Letter from the Board” of this circular
“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 and is owned as to 50% by Weichai Factory

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## DEFINITIONS

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“WD Sales and Warranty Agreement”	the agreement dated 21st September, 2005 entered into between the Company and Weichai Deutz in relation to the provision of sales and warranty period repair and maintenance services by the Company to Weichai Deutz
“WF Continuing Connected Transactions”	the transactions under the WF General Services Agreement and the WF Utility Services Agreement, respectively which constitute non-exempt continuing connected transactions of the Company under the Listing Rules and have been approved by the Shareholders in accordance with the Listing Rules
“WF General Services Agreement”	the agreement dated 17th November, 2003 as amended by the supplemental agreement dated 15th September, 2004 entered into between the Company and Weichai Factory in relation to the provision of certain general services by Weichai Factory to the Company
“WF General Services Supplemental Agreement”	the agreement entered into between the Company and Weichai Factory on 21st September, 2005 to amend and supplement the WF General Services Agreement
“WF Utility Services Agreement”	the agreement dated 17th November, 2003 as amended by the supplemental agreement dated 15th September, 2004 entered into between the Company and Weichai Factory in relation to the provision of certain utility and energy services by Weichai Factory to the Company
“WF Utility Services Supplemental Agreement”	the agreement entered into between the Company and Weichai Factory on 21st September, 2005 to amend and supplement the WF Utility Services Agreement
“Weichai Factory”	濰坊柴油機廠 (Weifang Diesel Engine Works), a legal person established in the PRC and is a substantial shareholder and a promoter of the Company. Weichai Factory is wholly owned by CHDTGL

*This circular contains translations of RMB into HK Dollar at the rate of HK\$1.00 to RMB1.04 solely for reference. No representation or assurance is made or given that the RMB amounts set out in this circular have been, could have been, could be, may be or will be converted into HK\$ as such rate or any other rates.*

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## LETTER FROM THE BOARD

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# **WEICHAI** **潍柴動力股份有限公司** **WEICHAI POWER CO., LTD.**

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

**(Stock Code: 2338)**

***Executive Directors:***

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

***Non-executive Directors:***

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

***Independent Non-executive Directors:***

Zhang Xiaoyu  
Koo Fook Sun, Louis  
Fang Zhong Chang

***Supervisors:***

Sun Chengping  
Wang Yong  
Jiang Jianfang

***Registered office:***

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

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

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

20th October, 2005

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

Dear Sir or Madam,

### **VARIATION OF EXISTING CONTINUING CONNECTED TRANSACTIONS NEW NON-EXEMPT CONTINUING CONNECTED TRANSACTIONS AND PROPOSED NEW ELECTION AND RE-ELECTION OF THE DIRECTORS AND THE SUPERVISORS**

#### **A. INTRODUCTION**

We refer to the announcement of the Company dated 21st September, 2005 in respect of the variation of the Existing Continuing Connected Transactions and the New Non-exempt Continuing Connected Transactions. We also refer to the announcement of the Company dated 10th October, 2005 in relation to the proposed new election and re-election (as the case may be) of the Directors and the Supervisors.



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## LETTER FROM THE BOARD

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This circular gives you further information in relation to the above matters, and contains the advice of the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders in relation to the variation of the Existing Continuing Connected Transactions, the New Non-exempt Continuing Connected Transactions Agreements and the Transaction Caps and the notice of the EGM.

### **B. VARIATION OF EXISTING CONTINUING CONNECTED TRANSACTIONS**

Reference is made to the Announcement and the 2004 Circular in respect of, inter alia, the Existing Continuing Connected Transactions. The terms of the WF General Services Supplemental Agreement, the WF Utility Services Supplemental Agreement, the CW General Services Supplemental Agreement, the CW Utility Services Supplemental Agreement and the Processing Services Supplemental Agreement are as follows:

#### **WF General Services Supplemental Agreement**

As stated in the Announcement and the 2004 Circular, pursuant to the WF General Services Agreement, Weichai Factory has agreed to provide certain general services to the Company as more particularly set out in the Announcement and the 2004 Circular. The Company has been paying Weichai Factory a fee equal to the costs incurred by Weichai Factory in relation to the provision of the relevant general services plus a service charge representing 20% of such costs in accordance with the WF General Services Agreement.

The Company and Weichai Factory entered into the WF General Services Supplemental Agreement on 21st September, 2005 for varying the basis of calculating the service charge such that the service charge payable by the Company to Weichai Factory should equal to the actual costs incurred by Weichai Factory plus a service charge representing not more than 20% of such costs, as opposed to the actual costs incurred plus a fixed percentage of 20% of such costs as originally stated in the WF General Services Agreement. Save and except for the aforesaid, the other terms of the WF General Services Agreement remain unchanged. The variation does not affect the relevant Existing Cap for the transactions under the WF General Services Agreement and the relevant Existing Cap will continue to apply. However, as the WF General Services Supplemental Agreement constitutes a material change to the term of the WF General Services Agreement, the WF General Services Supplemental Agreement is therefore subject to the reporting, announcement and Independent Shareholders' approval requirements in accordance with the Listing Rules.

Subject to obtaining the approval of the Independent Shareholders, the WF General Services Supplemental Agreement will be valid as from 1st September, 2005 up to 31st December, 2006 (both days inclusive).

#### **WF Utility Services Supplemental Agreement**

As stated in the Announcement and the 2004 Circular, pursuant to the WF 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 as more particularly set out in the Announcement and the 2004 Circular. The Company has been paying Weichai Factory a fee equal to 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 in accordance with the WF Utility Services Agreement.

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## LETTER FROM THE BOARD

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The Company and Weichai Factory entered into the WF Utility Services Supplemental Agreement on 21st September, 2005 for varying the basis of calculating the service charge such that the service charge payable by the Company to Weichai Factory should equal to the actual costs incurred by Weichai Factory plus a service charge representing not more than 20% of such costs, as opposed to the actual costs incurred plus a fixed percentage of 20% of such costs as originally stated in the WF Utility Services Agreement. Save and except for the aforesaid, the other terms of the WF Utility Services Agreement remain unchanged. The variation does not affect the relevant Existing Cap for the transactions under the WF Utility Services Agreement and the relevant Existing Cap will continue to apply. However, as the WF Utility Services Supplemental Agreement constitutes a material change to the term of the WF Utility Services Agreement, the WF Utility Services Supplemental Agreement is therefore subject to the reporting, announcement and Independent Shareholders' approval requirements in accordance with the Listing Rules.

Subject to obtaining the approval of the Independent Shareholders, the WF Utility Services Supplemental Agreement will be valid as from 1st September, 2005 up to 31st December, 2006 (both days inclusive).

### **CW General Services Supplemental Agreement**

As stated in the Announcement and the 2004 Circular, pursuant to the CW General Services Agreement, Chongqing Weichai has agreed to provide certain general services to Chongqing Branch as more particularly set out in the Announcement and the 2004 Circular. The Company has been paying Chongqing Weichai a fee equal to the costs incurred by Chongqing Weichai in relation to the provision of the relevant general services plus a service charge representing 20% of such costs in accordance with the CW General Services Agreement.

The Company and Chongqing Weichai entered into the CW General Services Supplemental Agreement on 21st September, 2005 for varying the basis of calculating the service charge such that the service charge payable by the Company to Chongqing Weichai should equal to the actual costs incurred by Chongqing Weichai plus a service charge representing not more than 20% of such costs, as opposed to the actual costs incurred plus a fixed percentage of 20% of such costs as originally stated in the CW General Services Agreement. Save and except for the aforesaid, the other terms of the CW General Services Agreement remain unchanged. The variation does not affect the relevant Existing Cap for the transactions under the CW General Services Agreement and the relevant Existing Cap will continue to apply. However, as the CW General Services Supplemental Agreement constitutes a material change to the term of the CW General Services Agreement, the CW General Services Supplemental Agreement is therefore subject to the reporting, announcement and Independent Shareholders' approval requirements in accordance with the Listing Rules.

Subject to obtaining the approval of the Independent Shareholders, the CW General Services Supplemental Agreement will be valid as from 1st September, 2005 up to 31st December, 2006 (both days inclusive).

### **CW Utility Services Supplemental Agreement**

As stated in the Announcement and the 2004 Circular, pursuant to the CW Utility Services Agreement, Chongqing Weichai has agreed to provide or provide the connection of (as the case may be) certain utility and energy services to Chongqing Branch as more particularly set out in the Announcement and the 2004 Circular. The Company has been paying Chongqing

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## LETTER FROM THE BOARD

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Weichai a fee equal to the costs incurred by Chongqing Weichai in relation to the provision of the relevant utility and energy services plus a service charge representing 20% of such costs in accordance with the CW Utility Services Agreement.

The Company and Chongqing Weichai entered into the CW Utility Services Supplemental Agreement on 21st September, 2005 for varying the basis of calculating the service charge such that the service charge payable by the Company to Chongqing Weichai should equal to the actual costs incurred by Chongqing Weichai plus a service charge representing not more than 20% of such costs, as opposed to the actual costs incurred plus a fixed percentage of 20% of such costs as originally stated in the CW Utility Services Agreement. Save and except for the aforesaid, the other terms of the CW Utility Services Agreement remain unchanged. The variation does not affect the relevant Existing Cap for the transactions under the CW Utility Services Agreement and the relevant Existing Cap will continue to apply. However, as the CW Utility Services Supplemental Agreement constitutes a material change to the term of the CW Utility Services Agreement, the CW Utility Services Supplemental Agreement is therefore subject to the reporting, announcement and Independent Shareholders' approval requirements in accordance with the Listing Rules.

Subject to obtaining the approval of the Independent Shareholders, the CW Utility Services Supplemental Agreement will be valid as from 1st September, 2005 up to 31st December, 2006 (both days inclusive).

### **Processing Services Supplemental Agreement**

As stated in the Announcement and the 2004 Circular, pursuant to the Processing Services Agreement, Chongqing Weichai has agreed to provide processing services to Chongqing Branch as more particularly set out in the Announcement and the 2004 Circular. The Company has been paying Chongqing Weichai a fee equal to the costs incurred by Chongqing Weichai in relation to the provision of the processing services plus a service charge representing 20% of such costs in accordance with the Processing Services Agreement.

The Company and Chongqing Weichai entered into the Processing Services Supplemental Agreement on 21st September, 2005 for varying the basis of calculating the service charge such that the service charge payable by the Company to Chongqing Weichai should equal to the actual costs incurred by Chongqing Weichai plus a service charge representing not more than 20% of such costs, as opposed to the actual costs incurred plus a fixed percentage of 20% of such costs as originally stated in the Processing Services Agreement. Save and except for the aforesaid, the other terms of the Processing Services Agreement remain unchanged. The variation does not affect the relevant Existing Cap for the transactions under the Processing Services Agreement and the relevant Existing Cap will continue to apply. However, as the Processing Services Supplemental Agreement constitutes a material change to the term of the Processing General Services Agreement, the Processing General Services Supplemental Agreement is therefore subject to the reporting, announcement and Independent Shareholders' approval requirements in accordance with the Listing Rules.

Subject to obtaining the approval of the Independent Shareholders of the Company, the Processing Services Supplemental Agreement will be valid as from 1st September, 2005 up to 31st December, 2006 (both days inclusive).

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## LETTER FROM THE BOARD

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### C. REASONS FOR THE VARIATION

There is an increase in demand for the services provided by Weichai Factory and Chongqing Weichai due to the year-to-year increase in the turnover of the Company. In order to better control the costs of the Company, the Company entered into negotiation with Weichai Factory and Chongqing Weichai, respectively regarding the rate of their service charges. The WF General Services Supplemental Agreement, the WF Utility Services Supplemental Agreement, the CW General Services Supplemental Agreement, the CW Utility Services Supplemental Agreement and the Processing Services Supplemental Agreement are entered into for the necessity and benefits of the Company as the transactions under these agreements have facilitated and will continue to facilitate the operations of the Company. The variations are negotiated on arm's length basis and are on normal commercial terms. The Directors are of the opinion that the variation is fair and reasonable to the Shareholders as a whole. The Directors consider that there are no disadvantages to the Company and the Shareholders as a whole by entering into the WF General Services Supplemental Agreement, the WF Utility Services Supplemental Agreement, the CW General Services Supplemental Agreement, the CW Utility Services Supplemental Agreement and the Processing Services Supplemental Agreement.

### D. NEW NON-EXEMPT CONTINUING CONNECTED TRANSACTIONS

On 21st September, 2005, the Company entered into the COPN Supply Agreement, the WD Sales and Warranty Agreement, the Hangqi Purchases Agreement and the Hangqi Supply Agreement.

#### **COPN Supply Agreement**

Particulars of the COPN Supply Agreement are set out below:

Date : 21st September, 2005

Parties : (a) Purchaser : The Company

(b) Supplier : COPN, a wholly owned subsidiary of CHDTGL which in turn wholly owns Weichai Factory; Weichai Factory holds approximately 23.53% of the entire issued share capital of the Company and is a promoter of the Company

Products to be supplied : Supply of oil pumps and nozzles by COPN to the Company

Pricing : Such transactions will be conducted on the basis of market price which shall be not more favourable to COPN than the price at which COPN supplies similar products to other independent third party having regard to the quantity and other conditions of the sales

Term : From 1st September, 2005 to 31st December, 2006, both days inclusive

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## LETTER FROM THE BOARD

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### **WD Sales and Warranty Agreement**

Particulars of the WD Sales and Warranty Agreement are set out below:

Date : 21st September, 2005

Parties : (a) Service provider : The Company

(b) Customer : Weichai Deutz, a 50% owned subsidiary of Weichai Factory; Weichai Factory holds approximately 23.53% of the entire issued share capital of the Company and is a promoter of the Company

Services to be provided : Provision of sales and warranty period repair and maintenance services by the Company to Weichai Deutz's customers

Pricing : At a price which is not more favourable to Weichai Deutz than the price at which the Company provides similar services to other independent third party having regard to the quantity and other conditions of the provision of services

Term : From 1st September, 2005 to 31st December, 2006, both days inclusive

### **Hangqi Purchases Agreement**

Particulars of the Hangqi Purchases Agreement are set out below:

Date : 21st September, 2005

Parties : (a) Supplier : The Company

(b) Purchaser : Hangqi, a wholly owned subsidiary of CHDTGL which in turn wholly owns Weichai Factory; Weichai Factory holds approximately 23.53% of the entire issued share capital of the Company and is a promoter of the Company

Products to be supplied : Supply of oil pumps by the Company to Hangqi

Pricing : Such transactions will be conducted on the basis of market price which shall be not more favourable to Hangqi than the price at which the Company supplies similar products to other independent third party having regard to the quantity and other conditions of the sales

Term : From 1st September, 2005 to 31st December, 2006, both days inclusive

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## LETTER FROM THE BOARD

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### Hangqi Supply Agreement

Particulars of the Hangqi Supply Agreement are set out below:

Date : 21st September, 2005

Parties : (a) Purchaser : The Company

(b) Supplier : Hangqi, a wholly owned subsidiary of CHDTGL which in turn wholly owns Weichai Factory; Weichai Factory holds approximately 23.53% of the entire issued share capital of the Company and is a promoter of the Company

Products to be supplied : Supply of diesel engines by Hangqi to the Company

Pricing : Such transactions will be conducted on the basis of market price which shall be not more favourable to Hangqi than the price at which Hangqi supplies similar products to other independent third party having regard to the quantity and other conditions of the sales

Term : From 1st September, 2005 to 31st December, 2006, both days inclusive

The terms of all the above agreements were arrived at after arm's length negotiation with COPN, Weichai Deutz and Hangqi, respectively. The Directors (including the independent non-executive Directors) consider that the terms of all the above agreements are normal commercial terms and are fair and reasonable and in the interests of the Shareholders as a whole. The New Non-exempt Continuing Connected Transactions are carried out in the ordinary and usual course of business of the Company.

### E. INFORMATION ON THE COMPANY, COPN, WEICHAI DEUTZ AND HANGQI

The principal activity of the Company is the research and development, manufacturing and sale of high speed heavy duty diesel engines. The products of the Company are widely applicable to different markets, including heavy-duty vehicles, coaches, construction machines, vessels and power generators.

COPN is wholly owned by CHDTGL and is engaged in the manufacture and sale of oil pumps and nozzles.

Weichai Deutz is engaged in, inter alia, the manufacture and sale of 226B series of diesel engines and parts which are mainly used in agricultural (and related) machines.

Hangqi is principally engaged in the manufacture of diesel engines, which are mainly used in heavy duty trucks, large, medium and small-sized coaches/passenger cars, power generators and vessels.

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## LETTER FROM THE BOARD

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### F. REASONS FOR THE NEW NON-EXEMPT CONTINUING CONNECTED TRANSACTIONS

For better control on products quality and technical specification compliance, CHDTGL requests that all truck diesel engines supplied by the Company to CHDTGL have to be installed with oil pumps and nozzles manufactured by COPN. As such, the Company entered into the COPN Supply Agreement with COPN for purchasing oil pumps and nozzles from COPN. In view of the long-term business relationship between the Company and CHDTGL, it is favourable for the Company to enter into this transaction in order to secure orders from CHDTGL.

Weichai Deutz sold its products through its own sales network in the past. However, due to the restructuring of Weichai Factory and its associated companies (including Weichai Deutz), the sales networks of Weichai Factory and its associated companies (including Weichai Deutz) are combined with that of the Company. As such, the Company entered into the WD Sales and Warranty Agreement with Weichai Deutz for providing sales and warranty period repair and maintenance services to the customers of Weichai Deutz with respect to the diesel engines manufactured by Weichai Deutz. The Company considers that the combined strength of the sales network of the Company and Weichai Factory and its associated companies (including Weichai Deutz) will facilitate the Company's development and the expansion of its market share.

CHDTGL has been purchasing diesel engines from Hangqi. In anticipation of the acquisition of Hangqi by the Company as announced by the Company on 27th September, 2004, CHDTGL starts to centralize its sourcing of diesel engines on the Company so that all sales of diesel engines by Hangqi to CHDTGL have to be made through the Company. The Company will purchase the diesel engines from Hangqi at market price and then re-sell them together with other diesel engines manufactured by the Company to CHDTGL at market price. As such, the Company entered into the Hangqi Supply Agreement with Hangqi for purchasing the diesel engines from Hangqi. The centralizing of sourcing of CHDTGL on the Company will enhance the competitiveness of the Company in the market and is favourable for the Company in terms of its market share expansion.

To control the quality of diesel engines manufactured and supplied by Hangqi and in order to ensure that such diesel engines meet with the technical specifications of CHDTGL, CHDTGL requests that all diesel engines manufactured and supplied by Hangqi to CHDTGL through the Company have to be installed with oil pumps supplied by the Company. As such, the Company entered into the Hangqi Purchases Agreement with Hangqi for supplying oil pumps to Hangqi.

The Directors consider that there are no disadvantages to the Company and the Shareholders as a whole by entering into the COPN Supply Agreement, the WD Sales and Warranty Agreement, the Hangqi Purchases Agreement and the Hangqi Supply Agreement.

### G. AGGREGATE ANNUAL VALUE

The Directors expect that the aggregate annual value of the transactions under the COPN Supply Agreement will not exceed RMB60,000,000 (approximately HK\$57,692,300) in 2005 and RMB125,000,000 (approximately HK\$120,192,308) in 2006. The caps are prepared based on: (i) the Company's estimate of the number of diesel engines to be sold by the Company to CHDTGL; and (ii) the assumption that the market price of oil pumps will remain stable. There is a significant increase in the annual cap for 2006 because the annual cap for 2005 is only for the period from September 2005 to December 2005 while the annual cap for 2006 is for the period from January 2006 to December 2006.

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## LETTER FROM THE BOARD

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The Directors expect that the aggregate annual value of the transactions under the WD Sales and Warranty Agreement will not exceed RMB7,500,000 (approximately HK\$7,211,500) in 2005 and RMB15,000,000 (approximately HK\$14,423,100) in 2006. The caps are prepared based on the Company's estimate of the number of diesel engines to be sold by Weichai Deutz to its customers. There is a significant increase in the annual cap for 2006 because the annual cap for 2005 is only for the period from September 2005 to December 2005 while the annual cap for 2006 is for the period from January 2006 to December 2006.

The Directors expect that the aggregate annual value of the transactions under the Hangqi Purchases Agreement will not exceed RMB80,000,000 (approximately HK\$76,923,100) in 2005 and RMB160,000,000 (approximately HK\$153,846,200) in 2006. The caps are prepared based on: (i) the Company's estimate of the number of diesel engines to be sold by Hangqi through the Company to CHDTGL as explained below; and (ii) the assumption that the market price of oil pumps will remain stable. There is a significant increase in the annual cap for 2006 because the annual cap for 2005 is only for the period from September 2005 to December 2005 while the annual cap for 2006 is for the period from January 2006 to December 2006.

The Directors expect that the aggregate annual value of the transactions under the Hangqi Supply Agreement will not exceed RMB480,000,000 (approximately HK\$461,538,500) in 2005 and RMB1,000,000,000 (approximately HK\$961,538,500) in 2006. The caps are prepared based on the Company's estimate of the number of diesel engines to be sold by Hangqi through the Company to CHDTGL. CHDTGL purchases diesel engines from either the Company or Hangqi. The purchases from the Company represent approximately 65% of the total purchases of CHDTGL while the purchases from Hangqi represent approximately 35% of the total purchases of CHDTGL. As stated in the paragraph headed "Reasons for the New Non-exempt Continuing Connected Transactions" above, in anticipation of the acquisition of Hangqi by the Company as announced by the Company on 27th September, 2004, CHDTGL starts to centralize its sourcing of diesel engines on the Company. Based on the estimated total purchases of RMB2,600 million by CHDTGL as disclosed in the Announcement and the 2004 Circular, the total purchases by CHDTGL from Hangqi through the Company shall be approximately RMB910 million for the whole year of 2005. After deducting the purchases made by CHDTGL directly from Hangqi before it starts to centralize its sourcing on the Company, the total purchases by CHDTGL from Hangqi through the Company for the remaining months of 2005 shall not exceed RMB480 million. As CHDTGL starts to centralize its sourcing of diesel engines on the Company, it is expected that the purchases by CHDTGL from the Company will gradually increase in the future while purchases from Hangqi will gradually decrease. Based on the discussion with CHDTGL, the Company estimates that the total purchases by CHDTGL from Hangqi through the Company for the year of 2006 will only represent approximately 24% of the total purchases of CHDTGL. Based on the estimated total purchases of RMB4,100 million by CHDTGL for the year of 2006 as disclosed in the Announcement and the 2004 Circular, the Company estimates that the total purchases by CHDTGL from Hangqi through the Company shall not exceed RMB1,000 million. There is a significant increase in the annual cap for 2006 because the annual cap for 2005 is only for the period from September 2005 to December 2005 while the annual cap for 2006 is for the period from January 2006 to December 2006.

### H. LISTING RULES IMPLICATIONS

COPN and Hangqi are both wholly owned by CHDTGL. CHDTGL is the holding company of Weichai Factory which in turn is a substantial shareholder and a promoter of the Company. As such, each of COPN and Hangqi is an associate of Weichai Factory and, hence, a connected person of the Company under the Listing Rules.



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## LETTER FROM THE BOARD

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Weichai Deutz is owned as to 50% by Weichai Factory and, accordingly, Weichai Deutz is an associate of Weichai Factory and, hence, a connected person of the Company under the Listing Rules.

Since COPN, Hangqi and Weichai Deutz are associates of Weichai Factory and the Company has entered into the Previous Transactions with Weichai Factory and its associates as more particularly disclosed in the Announcement and the 2004 Circular, the transactions under the New Non-exempt Continuing Connected Transactions Agreements will be aggregated with such Previous Transactions.

The transactions under the New Non-exempt Continuing Connected Transactions Agreements, when aggregate with the Previous Transactions, constitute New Non-exempt Continuing Connected Transactions of the Company and are subject to the reporting, announcement and Independent Shareholders' approval requirements under the Listing Rules.

### **I. PROPOSED NEW ELECTION AND RE-ELECTION OF THE DIRECTORS AND THE SUPERVISORS**

In accordance with the Articles of Association, the Board comprises fifteen Directors, including four executive Directors, eight non-executive Directors and three independent non-executive Directors while the Supervisory Committee comprises three Supervisors including two Supervisors representing the Shareholders and one Supervisor representing the employees of the Company.

The existing term of office of each of the executive Directors, the non-executive Directors and the Supervisors will expire on 17th December, 2005. Pursuant to the AGM Resolutions, the existing term of office of each of the independent non-executive Directors will expire on the date as mentioned under the Existing INED Term.

On 8th October, 2005, the Board passed a resolution to convene an extraordinary general meeting for the purpose of re-electing the existing executive Directors, the existing non-executive Directors (save and except for Mr. Feng Gang who has not been nominated as candidate for re-election by 山東省企業托管經營股份有限公司 (Shandong Provincial Enterprises Trusteeship & Operation Co., Ltd.), a promoter of the Company), the existing independent non-executive Directors and the Supervisors (representing the Shareholders) for a term of three years commencing on 18th December, 2005 and ending on 17th December, 2008 (both days inclusive). 山東省企業托管經營股份有限公司 (Shandong Provincial Enterprises Trusteeship & Operation Co., Ltd.), a promoter of the Company, has nominated Ms. Han Xiaoqun as a non-executive Director. Subject to the approval of the Shareholders at the EGM, the term of office of Ms. Han Xiaoqun will be for a period of three years commencing on 18th December, 2005 and ending on 17th December, 2008 (both days inclusive). If the independent non-executive Directors are re-elected at the EGM, then their new term of office will be for a period of three years commencing on 18th December, 2005 and ending on 17th December, 2008 (both days inclusive) while the Existing INED Term will, subject to the approval of the Shareholders, expire on 17th December, 2005. It was also resolved by the Board that the Supervisor (representing the employees of the Company) would be subject to re-election by the employees of the Company for a term of three years commencing on 18th December, 2005 and ending on 17th December, 2008 (both days inclusive).

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## LETTER FROM THE BOARD

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The new election and re-election (as the case may be) of the Directors and the Supervisors (representing the Shareholders) are subject to the Shareholders' approval by way of ordinary resolution at the EGM. The re-election of the Supervisor (representing the employees of the Company) is subject to the approval of the employees of the Company.

### Directors

- (a) The names, profiles and proposed basic salary of the Directors to be elected or re-elected (as the case may be) at the EGM:

Out of the existing fifteen Directors, fourteen Directors, namely Mr. Tan Xuguang, Mr. Xu Xinyu, Mr. Sun Shaojun, Mr. Zhang Quan, Mr. Yeung Sai Hong, Mr. Yao Yu, Mr. Li San Yim, Mr. Tong Jingen, Ms. Zhang Fusheng, Mr. Julius G. Kiss, Mr. Chen Xue Jian, Mr. Zhang Xiaoyu, Mr. Koo Fook Sun, Louis and Mr. Fang Zhong Chang, have been nominated as candidates for re-election as members of the Board as from 18th December, 2005 up to 17th December, 2008 (both days inclusive). Mr. Feng Gang has not been nominated as candidate for re-election by 山東省企業托管經營股份有限公司 (Shandong Provincial Enterprises Trusteeship & Operation Co., Ltd.), a promoter of the Company). 山東省企業托管經營股份有限公司 (Shandong Provincial Enterprises Trusteeship & Operation Co., Ltd.) has instead nominated Ms. Han Xiaoqun as a non-executive Director. The basic salaries paid in the financial year of 2004 to the Directors who have been nominated for re-election at the EGM, namely Mr. Tan Xuguang, Mr. Xu Xinyu, Mr. Sun Shaojun, Mr. Zhang Quan, Mr. Yeung Sai Hong, Mr. Yao Yu, Mr. Li San Yim, Mr. Tong Jingen, Ms. Zhang Fusheng, Mr. Julius G. Kiss, Mr. Chen Xue Jian, Mr. Zhang Xiaoyu, Mr. Koo Fook Sun, Louis and Mr. Fang Zhong Chang were RMB380,000, RMB250,000, RMB250,000, RMB250,000, RMB50,000, RMB50,000, RMB50,000, RMB50,000, RMB50,000, RMB50,000, RMB25,068, RMB100,000, RMB146,280 and RMB4,110, respectively.

Each of the executive Directors, namely Mr. Tan Xuguang, Mr. Xu Xinyu, Mr. Sun Shaojun and Mr. Zhang Quan will enter into a new service contract with the Company for a term of three years commencing on 18th December, 2005 and ending on 17th December, 2008 (both days inclusive). Terms of the service contracts of such executive Directors are in all material respects the same.

The non-executive Directors and the independent non-executive Directors will not enter into any service contract with the Company. It is proposed that the new term of appointment of each of the non-executive Directors and the independent non-executive Directors shall for a period of three years commencing on 18th December, 2005 and ending on 17th December, 2008 (both days inclusive).

The Directors' basic salaries are to be fixed by the remuneration committee of the Company pursuant to the authority to be granted by the Shareholders at the EGM provided that the basic salary of each of the Directors to be so fixed by the remuneration committee shall not exceed RMB600,000 per annum. The Company will make disclosure of the determined amounts of the Directors' basic salaries in the Company's annual report for the financial year of 2005. In addition, bonus (if any) will be paid to the executive and non-executive Directors based on the operating results of the Company and at the Company's discretion. No bonus will be paid to the independent non-executive Directors.

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## LETTER FROM THE BOARD

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The biographical details of each of the Directors who stand for new election or re-election (as the case may be) at the EGM are set out below to enable the Shareholders to make an informed decision on their new election or re-election (as the case may be).

Save as disclosed herein, each of the Directors who stand for new election or re-election (as the case may be) does not have any relationship with any other Directors, Supervisors, senior management or substantial or controlling shareholders of the Company.

Save as disclosed herein, each of them does not have any interest in the Shares within the meaning of Part XV of the SFO.

- (b) Brief biographical details of the Directors proposed to be appointed or re-elected (as the case may be) at the EGM:

### *Executive Directors*

**Mr. Tan Xuguang** (譚旭光先生), aged 44, is the chairman of the Board and an executive Director of the Company. Mr. Tan joined the Company in 1977 and had held various positions including the deputy director of the import and export department, assistant to general manager, deputy general manager and general manager of Weichai Factory. Mr. Tan is a senior economist and holds a master's degree in 動力工程 (power engineering) from Tianjin University. Mr. Tan is the general manager of Weichai Factory and a director and a deputy general manager of CHDTGL. Mr. Tan is responsible for formulating the overall business development strategies for the Company.

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

**Mr. Xu Xinyu** (徐新玉先生), aged 42, is an executive Director and General Manager — Operations of the Company. Mr. Xu joined the Company in 1986 and had held the positions of director of corporate affairs office, director of human resources department, assistant to general manager, deputy general manager and executive deputy general manager of Weichai Factory. Mr. Xu is a senior economist and was graduated from 聊城師範學院 (Liaocheng Institute of Education) in 1986 with a bachelor's degree in science. Mr. Xu is responsible for implementing the business strategies and overseeing the operations of the Company.

**Mr. Sun Shaojun** (孫少軍先生), aged 40, is an executive Director and General Manager — Technology of the Company. Mr. Sun joined the Company in 1988 and had held the positions of assistant supervisor and supervisor of the engineering department, assistant to general manager and the chief engineer of Weichai Factory. Mr. Sun is a senior engineer and was graduated from 北京航空學院 (Beijing Aviation College) in 1988 with a master's degree in 工學 (engineering). Mr. Sun is responsible for overseeing the improvement and research and development of the Company's products and other technical matters.

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## LETTER FROM THE BOARD

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**Mr. Zhang Quan** (張泉先生), aged 42, is an executive Director and General Manager — Marketing of the Company. Mr. Zhang joined the Company in 1986 and had held the positions of directors of the quality control department, the production department and the marketing management department, assistant to general manager and deputy general manager of Weichai Factory. Mr. Zhang is an engineer and was graduated from 山東工業大學 (Shandong Industrial University) in 1986 with a bachelor's degree in 工學 (engineering). Mr. Zhang is responsible for formulating and implementing the marketing activities of the Company.

### *Non-executive Directors*

**Mr. Yeung Sai Hong** (楊世杭先生), aged 52, is currently a director of Peterson Holdings Company Limited which is a promoter of the Company. He is also a member of the 9th Shandong Provincial Committee of the Chinese People's Consultative Conference.

**Mr. Chen Xue Jian** (陳學儉先生), aged 50, is the general manager and legal representative of Weifang Investment Company, Mr. Chen served as deputy director of 濰坊市財政局 (Finance Bureau of Weifang City) and deputy director of 濰坊市地方稅務局 (Tax Bureau of Weifang City).

**Mr. Yao Yu** (姚宇先生), aged 35, is an investment manager of Shenzhen Investment. He holds an MBA degree from the China Europe International Business School in 2000.

**Mr. Li San Yim** (李新炎先生), aged 54, founded 福建龍岩工程機械(集團)有限公司 (Fujian Longyan Construction Machinery (Group) Company Limited) (“Fujian Longgong”) (a promoter of the Company) in 1993, of which he is the chairman. Fujian Longgong is principally engaged in the manufacture and sale of, among others, wheel-loaders.

**Mr. Tong Jingen** (童金根先生), aged 43, is the engineer of the supply office, director of quality control office of ancillary components department, and deputy director of the corporate management department of 濟汽總廠 (Jiqi Factory), deputy director of the corporate management office of CHDTGL, deputy general manager of treasury department of 重汽銷售公司 (Jiqi Sales Company), and deputy chief economist and manager of treasury department, and he is currently the chief economist, of CHDTGL. He holds a master's degree in 工學 (engineering) from Tsinghua University in 1989.

**Ms. Zhang Fusheng** (張伏生女士), aged 48, joined Weichai Factory in 1975. She was deputy director of audit department, director of finance department, deputy chief accountant and assistant to general manager, and she is now the chief accountant and financial controller of Weichai Factory. She is a senior accountant.

**Mr. Julius G. Kiss**, aged 78, is the chairman of IVM Technical Consultants Wien G.m.b.H. which is a promoter of the Company.

**Ms. Han Xiaoqun** (韓小群女士), aged 55, is the general manager of 山東省外商投資服務公司 (Shandong Foreign Investment Service Company) and is the chairperson of 山東省企業托管經營股份有限公司 (Shandong Provincial Enterprises Trusteeship & Operation Co., Ltd.) which is a promoter of the Company.

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## LETTER FROM THE BOARD

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### *Independent non-executive Directors*

**Mr. Zhang Xiaoyu** (張小虞先生), aged 61, served as the Deputy Director of 中國國家機械工業局 (State Mechanic Industry Bureau of the PRC). He is a senior engineer with professor-grade treatment. Mr. Zhang is the vice-chairman of 中國機械工業聯合會 (China Machinery Industrial Association), chairman of 中國汽車工程學會 (China Vehicles Engineering Association) and chairman of 中國內燃機學會 (China Internal Combustion Engine Association).

**Mr. Koo Fook Sun, Louis** (顧福身先生), aged 49, is the managing director of Hercules Capital Limited, a corporate finance advisory firm. Mr. Koo has many years of experience in investment banking and professional accounting. He was the managing director and head of the corporate finance department of a major international bank, a director and chief executive officer of a main board listed company. He currently also serves as an independent non-executive director of another two companies listed on the main board. Mr. Koo graduated with a bachelor's degree in business administration from the University of California at Berkeley and is a member of the Hong Kong Institute of Certified Public Accountants.

**Mr. Fang Zhong Chang** (房忠昌先生), aged 63, 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.

### *Supervisors*

(a) The names, profiles and proposed basic salary of the Supervisors to be re-elected:

The existing Supervisory Committee consists of three members, two of whom (namely, Mr. Sun Chengping and Ms. Jiang Jianfang) were elected by the Shareholders, whereas one (namely, Mr. Wang Yong) was elected by the employees of the Company. The term of office of all the three Supervisors will expire on 17th December, 2005. Mr. Sun Chengping, Ms. Jiang Jianfang and Mr. Wang Yong have been nominated for re-election as members of the Supervisory Committee. The basic salaries paid in the financial year of 2004 to the Supervisors who have been nominated for re-election by the Shareholders or the employees of the Company (as the case may be), namely Mr. Sun Chengping, Ms. Jiang Jianfang and Mr. Wang Yong were RMB50,000, RMB50,000 and RMB60,000, respectively.

The Supervisors will not enter into any service contract with the Company. It is proposed that the new term of appointment of each of the Supervisors shall for a period of three years commencing on 18th December, 2005 and ending on 17th December, 2008 (both days inclusive). The Supervisors' basic salaries are to be fixed by the remuneration committee of the Company pursuant to the authority to be granted by the Shareholders at

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## LETTER FROM THE BOARD

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the EGM provided that the basic salary of each of the Supervisors to be so fixed by the basic salaries committee shall not exceed RMB600,000 per annum. The Company will make disclosure of the determined amounts of the Supervisors' basic salaries in the Company's annual report for the financial year of 2005. In addition, bonus (if any) will be paid to the Supervisors based on the operating results of the Company and at the Company's discretion.

The biographical details of each of the Supervisors (representing Shareholders) who stand for re-election at the EGM are set out below to enable the Shareholders to make an informed decision on their re-election.

Save as disclosed herein, each of the Supervisors who stand for re-election does not have any relationship with any other Directors, Supervisors, senior management or substantial or controlling shareholders of the Company. Save as disclosed herein, each of them does not have any interest in the Shares within the meaning of Part XV of the SFO.

(b) Brief biographical details of the Supervisors proposed to be re-elected at the EGM:

**Mr. Sun Chengping** (孫承平先生), aged 58, is the chairman of the supervisory committee of the Company. He joined Weichai Factory in 1969 and was the refinement workshop supervisor, deputy general manager of Weichai Factory. Mr. Sun is a senior economist.

**Ms. Jiang Jianfang** (蔣建芳女士), aged 43, is a supervisor of the Company. She is the deputy chief of the financial audit committee of 廣西柳工集團有限公司 (Guangxi Liugong Group Company Limited) and a supervisor of 廣西柳工機械股份有限公司 (Guangxi Liugong Machinery Company Limited, a company listed on the Shenzhen Stock Exchange). Ms Jiang is an accountant.

### J. 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 Monday, 5th December, 2005 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 variation of the Existing Continuing Connected Transactions, the New Non-exempt Continuing Connected Transactions Agreements and the Transaction Caps and for the Shareholders to approve the new appointment and re-appointment (as the case may be) of the Directors and the Supervisors (representing the Shareholders) and to authorize the remuneration committee of the Company to fix their basic salary for an amount not exceeding RMB600,000 per annum for each of the Directors and the Supervisors, all by way of poll.

Weichai Factory, being a substantial shareholder and a promoter of the Company, and Mr. Tan Xuguang, being the general manager of Weichai Factory, will abstain from voting at the EGM in relation to the resolutions for approving the variation of the Existing Continuing Connected Transactions, the New Non-exempt Continuing Connected Transactions Agreements and the Transaction Caps. No other party is required to abstain from voting at the EGM pursuant to the Listing Rules.

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## LETTER FROM THE BOARD

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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 15th November, 2005 (Tuesday).

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.

### **K. CLOSURE OF REGISTERS OF SHAREHOLDERS**

The registers of shareholders of the Company will be closed from 5th November, 2005 (Saturday) to 5th December, 2005 (Monday) (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 4th November, 2005 (Friday).

### **L. PROCEDURES FOR DEMANDING A POLL AT THE EGM**

Under the Articles of Association, 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 in relation to the variation of the Existing Continuing Connected Transactions, the New Non-exempt Continuing Connected Transactions Agreements and the Transaction Caps to be sought from the Independent Shareholders at the EGM must be taken by poll at the EGM.

### **M. RECOMMENDATION**

Your attention is drawn to the letter from the Independent Board Committee to the Independent Shareholders, which is set out on page 23 of this circular, and which contains their recommendation in respect of the variation of the Existing Continuing Connected Transactions, the New Non-exempt Continuing Connected Transactions Agreement and the Transaction Caps.

The advice of the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders on the fairness and reasonableness of the terms of each of the WF General Services Supplemental Agreement, the WF Utility Services Supplemental Agreement, the CW General Services Supplemental Agreement, CW Utility Services Supplemental Agreement, the Processing Services Supplemental Agreement, the New Non-exempt Continuing Connected Transactions Agreement and the Transaction Caps are set out on pages 25 to 43 of this circular.

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## LETTER FROM THE BOARD

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Having considered the qualifications and the relevant experience of the candidates for new election or re-election (as the case may be) as the Directors and the Supervisors, the Board recommends that the Shareholders should vote in favour of the resolutions to be proposed at the EGM to approve the new election or re-election (as the case may be) of the Directors and the Supervisors.

### N. ADDITIONAL INFORMATION

Your attention is also drawn to the general information set out in the Appendix to this circular.

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





**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)**

20th October, 2005

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

Dear Sir or Madam,

**VARIATION OF EXISTING  
CONTINUING CONNECTED TRANSACTIONS  
AND  
NEW 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 variation of Existing Continuing Connected Transactions, the New Non-exempt Continuing Connected Transactions Agreement and the Transaction Cap, 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 and the Independent Shareholders in respect of the WF General Services Supplemental Agreement, the WF Utility Services Supplemental Agreement, the CW General Services Supplemental Agreement, CW Utility Services Supplemental Agreement, the Processing Services Supplemental Agreement, the New Non-exempt Continuing Connected Transactions Agreement and the Transaction Caps as set out in the “Letter from Independent Financial Adviser” as well as other additional information set out in other parts of the Circular.

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## LETTER FROM THE INDEPENDENT BOARD COMMITTEE

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

Yours faithfully,  
The Independent Board Committee

**Zhang Xiaoyu**  
*Independent*  
*non-executive Director*

**Koo Fook Sun, Louis**  
*Independent*  
*non-executive Director*

**Fang Zhong Chang**  
*Independent*  
*non-executive Director*

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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*The following is the full 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

20 October, 2005

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

Dear Sirs,

### **VARIATION OF EXISTING CONTINUING CONNECTED TRANSACTIONS AND NEW 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 in respect of the variations to the Existing Continuing Connected Transactions and the New Non-exempt Continuing Connected Transactions, details of which are set out in the circular to the shareholders of the Company dated 20 October 2005 (the “Circular”), of which this letter forms part. This letter contains our advice to the Independent Board Committee and the Independent Shareholders in respect of the variations to the Existing Continuing Connected Transactions, and the New Non-exempt Continuing Connected Transactions (together, the “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 21 September 2005 that the Company has entered into the WF General Services Supplemental Agreement, the WF Utility Services Supplemental Agreement, the CW General Services Supplemental Agreement, the CW Utility Services Supplemental Agreement and the Processing Services Supplemental Agreement on 21 September 2005 with two connected persons (as defined under the Listing Rules) of the Company, namely Weichai Factory and Chongqing Weichai, to revise the calculation of the service charges payable by the Company to Weichai Factory and Chongqing Weichai under the Existing Continuing Connected Transactions. Although such variations do not affect the relevant Existing Caps, which were approved by the independent shareholders of the Company on 15 December 2004 and continue to apply, the WF General Services Supplemental Agreement, the WF Utility Services Supplemental Agreement, the CW General Services Supplemental Agreement, the CW Utility Services Supplemental Agreement and the Processing Services Supplemental Agreement constitute a material change to the term of the WF General Services Agreement, the WF Utility Services Agreement, the CW General Services Agreement, the CW Utility Services Agreement and the Processing Services Agreement, respectively.

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Accordingly, the WF General Services Supplemental Agreement, the WF Utility Services Supplemental Agreement, the CW General Services Supplemental Agreement, the CW Utility Services Supplemental Agreement and the Processing Services Supplemental Agreement are subject to, among others, the approval of the Independent Shareholders pursuant to Chapter 14A of the Listing Rules.

In addition, the Board also announced on 21 September 2005 that the Company has entered into the COPN Supply Agreement, the WD Sales and Warranty Agreement, the Hangqi Supply Agreement and the Hangqi Purchases Agreement on 21 September 2005 with various connected persons (as defined under the Listing Rules) of the Company, namely COPN, Weichai Deutz and Hangqi. Since COPN, Weichai Deutz and Hangqi are associates of Weichai Factory and the Company has entered into the Previous Transactions with Weichai Factory and its associates, details of which were disclosed in the 2004 Circular, the New Non-exempt Continuing Connected Transactions will be aggregated with the Previous Transactions. Accordingly, the COPN Supply Agreement, the WD Sales and Warranty Agreement, the Hangqi Supply Agreement and the Hangqi Purchases Agreement constitute non-exempt continuing connected transactions of the Company and are 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 as to (i) whether or not the terms of each of the WF General Services Supplemental Agreement, the WF Utility Services Supplemental Agreement, the CW General Services Supplemental Agreement, the CW Utility Services Supplemental Agreement, the Processing Services Supplemental Agreement and the New Non-exempt Continuing Connected Transactions Agreements and the Transaction Caps are fair and reasonable; (ii) whether the variation to each of the Existing Continuing Connected Transactions, and the New Non-exempt Continuing Connected Transactions are in the interests of the Company and its shareholders as a whole; and (iii) how the Independent Shareholders should vote in respect of the resolutions to approve the variation made to each of the Existing Continuing Connected Transactions, and the New Non-exempt Continuing Connected Transactions.

In formulating our opinion, we have relied on the statements, information, opinions and representations contained in the Circular, the Prospectus and the 2004 Circular and the information and representations provided to us by the Company and the Directors. We have assumed that all information, representations and opinions contained or referred to in the Circular, the Prospectus and the 2004 Circular which have been provided by the Directors and for which they are solely responsible, are true and accurate at the time they were made 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 its associates or the market in which they operate.

### PRINCIPAL FACTORS CONSIDERED

In formulating our opinion regarding the 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 specializing in the research and development, and the manufacture and sale of high-speed heavy-duty diesel engines. The products of the Company are principally WD615 and WD618 diesel engines.

The Company's WD615 diesel 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 266 kW, exhaust emission meeting the Euro II emission standards, and a minimum fuel consumption at 194g/kWh per hour ("kWh"). Euro I emission standards are a set of standards that limit 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 diesel 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.

The Company's WD618 diesel engines are a series of diesel engines developed based on its WD615 diesel engines, with larger displacement of 11.596 litres. In addition to having those special features of the WD615 diesel engines as mentioned above, the Company's WD618 diesel engines can generate a higher output in the range of 265kW to 323kW. The WD618 diesel engines also comply with the Euro II emission standards with minimum fuel consumption at 198g/kWh. The applications of the WD618 diesel engines are basically the same as those of the WD615 diesel engines.

As stated in the Company's 2004 annual report, at the end of 2004, the Company invented the Euro III WP10 and WP12 series of diesel engines with 10-12 litre displacement and up to 480 horsepower. It was stated in the Company's 2005 interim report that during the six months ended 30 June 2005, the Company had started the trial production of these newly invented Euro III diesel engines on a market testing basis.

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It was also stated in the Company's 2005 interim report that the Company would focus on the research and development of new generation of diesel engines which comply with Euro IV emission standards based on the newly invented Euro III WP 10 and WP12 series of diesel engines. The Company expects that the above-mentioned research and development project will commence at the end of 2005 and is targeted to complete by 2008.

### (b) *Uses of the diesel engines of the Company*

Diesel engine manufacturing is a very large industry with a diverse range of engines, which can be 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 2002, 2003 and 2004 and each of the six-month period ended 30 June 2004 and 30 June 2005 is set out below:

	For the year ended 31 December						For the six months ended 30 June					
	2002		2003		2004		2004		2005			
	Units	%	Units	%	Units	%	Units	%	Units	%	Units	%
<b>Applications</b>												
Heavy-duty vehicles	22,955	53.2	40,286	50.1	83,103	61.8	33,853	52.8	40,123	58.5		
Construction machines	18,772	43.5	37,945	47.1	47,485	35.3	28,520	44.5	25,732	37.5		
Vessels	1,188	2.7	1,094	1.4	1,574	1.2	735	1.1	1,434	2.1		
Coaches	18	—	671	0.8	1,439	1.1	502	0.8	701	1.0		
Power generators	256	0.6	487	0.6	863	0.6	520	0.8	656	1.0		
Total	<u>43,189</u>	<u>100</u>	<u>80,483</u>	<u>100</u>	<u>134,464</u>	<u>100</u>	<u>64,130</u>	<u>100</u>	<u>68,646</u>	<u>100</u>		

As shown in the above table, for the three years ended 31 December 2004 and each of the six-month period ended 30 June 2004 and 30 June 2005, over 95% of the Company's sales volume was derived from the manufacture and sale of diesel engines for use in heavy-duty vehicles and construction machines.

### (c) *Relationship with the connected persons under the Transactions*

#### (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 diesel 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 diesel engines.

(iii) *COPN*

COPN is wholly owned by CHDTGL, which is the holding company of Weichai Factory, a substantial shareholder of the Company. COPN is engaged in the manufacture and sale of oil pumps and nozzles for diesel engines.

(iv) *Weichai Deutz*

Weichai Deutz is engaged in, among others, the manufacture and sale of 226B series of diesel engines and parts, which are mainly used in agricultural (and related) machines.

Weichai Deutz is owned as to 50% by Weichai Factory, a substantial shareholder of the Company 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 independent of and is not connected with any Director or substantial shareholder of the Company or any associate of any of them.

(v) *Hangqi*

Hangqi, which is wholly-owned by CHDTGL, is principally engaged in the manufacture of diesel engines, which are mainly used in heavy duty trucks, large, medium and small-sized coaches/passenger cars, power generators and vessels.

(vi) *CHDTGL*

Weichai Factory, which is a substantial shareholder of the Company, is wholly-owned by CHDTGL. CHDTGL and its subsidiaries (together, the "China Heavy Duty Truck Group") are engaged in, among others, the manufacture of coaches, heavy-duty vehicles and vehicle parts.

By virtue of the relationship between the Company and each of Weichai Factory, Chongqing Weichai, COPN, Weichai Deutz, Hangqi and CHDTGL described above (together, the "Connected Persons"), these parties are considered connected persons under the Listing Rules and the transactions between the Company and each of them constitute connected transactions.

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### (d) *Operating results*

#### (i) *Audited results for the four years ended 31 December 2004*

The following is a summary of the audited results of the Company for each of the four years ended 31 December 2001, 2002, 2003 and 2004, which is extracted from the Prospectus and the Company's 2004 annual report:

	Year ended 31 December			
	2001	2002	2003	2004
	(audited)	(audited)	(audited)	(audited)
	RMB'000	RMB'000	RMB'000	RMB'000
Turnover	856,581	1,880,368	3,555,670	6,155,779
Profit for the year	78,512	167,545	277,468	538,880

As indicated above, the Company recorded an annual growth of approximately 120%, 89% and 73% in its turnover for the year ended 31 December 2002, 2003 and 2004, respectively. Similar growth of approximately 113%, 66%, 94% were also registered in the Company's profit for the same years.

#### (ii) *Unaudited results for the six months ended 30 June 2005*

According to the latest interim results of the Company for the six months ended 30 June 2005, the Company had unaudited turnover of approximately RMB3,228 million, representing an increase of approximately 15.2% over the same period in 2004. The Company's turnover for the first half of this year was mainly derived from the sale of its diesel engines for use in the heavy-duty trucks and construction machines, which accounted for approximately 56.3% and 28.6% of the total turnover of the Company respectively. As stated in the Company's 2005 interim report, the increase in turnover for the period was mainly attributable to the growing demand in the heavy-duty truck industry as a result of the strong economic growth in the PRC which in turn leads to the increase in demand for the Company's diesel engines. It is also disclosed in the Company's 2005 interim report that despite the increase of approximately 15.2% in its turnover recorded for the six months ended 30 June 2005, as a result of the increase in expenses which were not tax deductible for the PRC income tax purpose and the fact that no income tax credit was granted during the six months ended 30 June 2005 versus an income tax credit of approximately RMB29 million recorded for the six months ended 30 June 2004, the unaudited net profit of the Company increased only slightly by approximately 3.0% from that for the corresponding period in 2004 to approximately RMB250 million for the six months ended 30 June 2005.

### (e) *Background for the Existing Continuing Connected Transactions*

Before the Company's H Shares became listed in March 2004, the Company has had business relationships with certain entities, which have 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 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 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 caps have been assigned to each category of the connected transactions, including the Existing Continuing Connected Transactions, for each of the two years ending 31 December 2005.

The reasons for, and benefits of, the Existing Continuing Connected Transactions are contained in the Prospectus. In particular, the Directors had confirmed in the Prospectus that the Existing Continuing Connected Transactions had been entered into after arm's length negotiation with the relevant 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, the sponsor of the Company's listing application, had also expressed its view in the Prospectus that the Existing Connected Transactions were fair and reasonable as far as the shareholders of the Company as a whole were concerned and the transactions thereunder were in the ordinary and usual course of the Company's business.

As 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 caps approved by the Stock Exchange at the time of listing of the Company have to be revised in order to cope with the business operations of the Company. Accordingly, the Company entered into various supplemental agreements on 15 September 2004 to (i) extend the duration of the agreements in relation to the Existing Continuing Connected Transactions to 31 December 2006; and (ii) amend the relevant annual caps (the "2004 Approved Caps"), details of which have been set out in the 2004 Circular. On 15 December 2004, the independent shareholders of the Company approved at an extraordinary general meeting, among others, the amendments made to the agreements under the Existing Continuing Connected Transactions and the 2004 Approved Caps.

As stated in the letter from the Board, there is an increase in demand for the services provided by Weichai Factory and Chongqing Weichai due to the year-to-year increase in turnover of the Company. In order to better control the costs of the Company, the Company entered into negotiation with Weichai Factory and Chongqing Weichai, respectively regarding the rate of their service charges. The WF General Services Supplemental Agreement, the WF Utility Services Supplemental Agreement, the CW General Services Supplemental Agreement, the CW Utility Services Supplemental Agreement and the Processing Services Supplemental Agreement were entered into for the necessity and benefits of the Company as the transactions under these agreements have facilitated and will continue to facilitate the operations of the Company.

### **I. EXISTING CONTINUING CONNECTED TRANSACTIONS**

#### **1. Continuing connected transactions between the Company and Weichai Factory**

##### *A. Terms of the WF General Services Supplemental Agreement*

As stated in the Prospectus and the 2004 Circular, pursuant to the WF General Service Agreement entered into between the Company and Weichai Factory, Weichai Factory has agreed to provide certain general services to the Company, which include 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). In accordance with the WF General Services Agreement, the Company has to pay Weichai Factory a fee equal to the costs incurred by Weichai Factory in relation to the provision of the relevant general services plus a service charge representing 20% of such costs, details of which were set out in the Prospectus.

On 21 September 2005, the Company and Weichai Factory entered into the WF General Services Supplemental Agreement to vary the basis for calculating the service charge such that the service charge payable by the Company to Weichai Factory should equal to the actual costs incurred by Weichai Factory plus a service charge representing not more than 20% of such costs, as opposed to the actual costs incurred plus a fixed percentage of 20% of such costs as originally stated in the WF General Services Agreement.

### *B. Terms of the WF Utility Services Supplemental Agreement*

As stated in the Prospectus and the 2004 Circular, pursuant to the WF Utility Services Agreement entered into between the Company and Weichai Factory, Weichai Factory has agreed to provide the connection of 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.. In accordance with the WF Utility Services Agreement, the Company has to pay Weichai Factory a fee equal to the costs incurred by Weichai Factory in relation to the provision of the relevant utility services plus a service charge representing 20% of such costs, details of which were set out in the Prospectus.

On 21 September 2005, the Company and Weichai Factory entered into the WF Utility Services Supplemental Agreement to vary the basis for calculating the service charge such that the service charge payable by the Company to Weichai Factory should equal to the actual costs incurred by Weichai Factory plus a service charge representing not more than 20% of such costs, as opposed to the actual costs incurred plus a fixed percentage of 20% of such costs as originally stated in the WF Utility Services Agreement.

## **2. Continuing connected transactions between the Company and Chongqing Weichai**

### *A. Terms of the CW General Services Supplemental Agreement*

As stated in the Prospectus and the 2004 Circular, pursuant to the CW General Service Agreement entered into between the Company and Chongqing Weichai, Chongqing Weichai has agreed to provide certain general services to the Chongqing Branch, which include 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 used by the Chongqing Branch. In accordance with the CW General Services Agreement, the Company has to pay Chongqing Weichai a fee equal to the costs incurred by Chongqing Weichai in relation to the provision of the relevant general services plus a service charge representing 20% of such costs, details of which were set out in the Prospectus.

On 21 September 2005, the Company and Chongqing Weichai entered into the CW General Services Supplemental Agreement to vary the basis for calculating the service charge such that the service charge payable by the Company to Weichai Factory should equal to the actual costs incurred by Weichai Factory plus a service charge representing not more than 20% of such costs, as opposed to the actual costs incurred plus a fixed percentage of 20% of such costs as originally stated in the CW General Services Agreement.

*B. Terms of the CW Utility Services Supplemental Agreement*

As stated in the Prospectus and the 2004 Circular, pursuant to the CW Utility Services Agreement entered into between the Company and Chongqing Weichai, Chongqing Weichai has agreed to provide the connection of certain utility and energy services to Chongqing Branch, which include water, electricity, natural gas, steam, oxygen, nitrogen and compressed air. In accordance with the CW Utility Services Agreement, the Company has to pay Chongqing Weichai a fee equal to the costs incurred by Chongqing Weichai in relation to the provision of the relevant utility services plus a service charge representing 20% of such costs, details of which were set out in the Prospectus.

On 21 September 2005, the Company and Chongqing Weichai entered into the CW Utility Services Supplemental Agreement to vary the basis for calculating the service charge such that the service charge payable by the Company to Chongqing Weichai should equal to the actual costs incurred by Chongqing Weichai plus a service charge representing not more than 20% of such costs, as opposed to the actual costs incurred plus a fixed percentage of 20% of such costs as originally stated in the CW Utility Services Agreement.

*C. Terms of the Processing Services Supplemental Agreement*

As stated in the Prospectus and the 2004 Circular, pursuant to the Processing Services Agreement 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 and the Company has to pay Chongqing Weichai a fee equal to the costs incurred by Chongqing Weichai in relation to the provision of the processing services plus a service charge representing 20% of such costs, details of which were set out in the Prospectus.

On 21 September 2005, the Company and Chongqing Weichai entered into the Processing Services Supplemental Agreement to vary the basis for calculating the service charge such that the service charge payable by the Company to Chongqing Weichai should equal to the actual costs incurred by Chongqing Weichai plus a service charge representing not more than 20% of such costs, as opposed to the actual costs incurred plus a fixed percentage of 20% of such costs as originally stated in the Processing Services Agreement.

### 3. Reasonableness of the variation of the Existing Continuing Connected Transactions

Except for the abovementioned variation to the basis of calculating the service charges payable by the Company to Weichai Factory and Chongqing Weichai, other terms of the agreements under the Existing Continuing Connected Transactions remain unchanged. The variation does not affect the 2004 Approved Caps, which will continue to apply.

As stated in the letter from the Board, there is an increase in demand for the services provided by Weichai Factory and Chongqing Weichai due to the year-to-year increase in the turnover of the Company. In order to better control the costs of the Company, the Company entered into negotiation with Weichai Factory and Chongqing Weichai, respectively regarding the rate of their service charges.

We are of the view that the variation to the basis of calculation of the service charges under each of the WF General Services Supplemental Agreement, the WF Utility Services Supplemental Agreement, the CW General Services Supplemental Agreement, the CW Utility Services Supplemental Agreement and the Processing Services Supplemental Agreement will only offer more flexibility to the Company in formulating its pricing strategy, which in turn allows the Company to enhance its competitiveness in the market and is not a term to render the Company in a less favourable position. In fact, the cost-plus margin of “not more than 20%” under the supplemental agreements would allow the Company to negotiate with Weichai Factory and Chongqing Weichai on a case-by-case basis for a lower charge than the fixed margin of 20% under the relevant existing agreements. Accordingly, we consider the entering into the WF General Services Supplemental, the WF Utility Services Supplemental Agreement, the CW General Services Supplemental Agreement, the CW Utility Services Supplemental Agreement and the Processing Services Supplemental Agreement in the interest of the Company and its shareholders as a whole and the terms of which are fair and reasonable so far as the Independent Shareholders are concerned.

## II. NEW NON-EXEMPT CONTINUING CONNECTED TRANSACTIONS

### 1. Purchase of oil pumps and nozzles by the Company from COPN

#### A. *Terms of the COPN Supply Agreement*

Pursuant to the COPN Supply Agreement, COPN has agreed to supply oil pumps and nozzles to the Company effective from 1 September 2005 and ending on 31 December 2006 on the basis of market price which shall not be more favourable to COPN than the price at which COPN supplies similar products to other independent third party having regard to the quantity and other conditions of the sales.

As stated in the letter from the Board, in order to better control the quality of products and ensure compliance with the technical specifications, CHDTGL requests that all truck diesel engines supplied by the Company to CHDTGL have to be installed with oil pumps and nozzles manufactured by COPN. In view of the long-term business relationship between the Company and CHDTGL, the Directors consider that it is favourable for the Company to enter into this transaction in order to secure orders from CHDTGL. Accordingly, the Company entered into the COPN Supply Agreement on 21 September 2005 for the purchase of oil pumps and nozzles from COPN.

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As stated in the letter from the Board, the terms of the COPN Supply Agreement were arrived at between the Company and COPN after arm's length negotiation. The Directors consider that the COPN Supply Agreement is conducted on normal commercial terms which are fair and reasonable and in the interests of the shareholders of the Company.

On the basis that (i) the transactions under the COPN Supply Agreement will be conducted on market price which is no more favourable to COPN than the price at which COPN supplies similar products to other independent third party having regard to the quantity and other conditions of the sales; and (ii) the oil pumps and nozzles supplied by COPN are the essential parts specified by CHDTGL as a customer of the Company, we consider that the COPN Supply Agreement is in the interest of the Company and its shareholders and the terms of which are fair and reasonable so far as the Company and the Independent Shareholders are concerned.

*B. Rationale for determining the annual caps for the transactions under the COPN Supply Agreement*

As advised by the Directors, there is no historical transaction between the Company and COPN for the purchases of oil pumps and nozzles.

The following sets out the estimated consideration payable by the Company to COPN in relation to the purchase of oil pumps and nozzles by the Company from COPN for (i) the four months ending 31 December 2005; and (ii) the year ending 31 December 2006:

	<b>Consideration estimated to be payable by the Company to COPN</b>	
	<i>(RMB' million)</i>	<i>(HK\$' million)</i>
<b>2005</b>		
1 September 2005 — 31 December 2005	60.0	57.7
<b>2006</b>		
1 January 2006 — 31 December 2006	125.0	120.2

The above proposed caps have been prepared by the Company based on (i) its estimate of the number of diesel engines to be sold by the Company to CHDTGL; and (ii) the assumption that the market price of oil pumps and nozzles will remain stable.

On the basis that the estimated consideration to be payable by the Company to COPN for the purchases of oil pumps and nozzles is RMB60.0 million for the four months ending 31 December 2005, the total consideration estimated to be payable by the Company to COPN is therefore estimated to be RMB180.0 million on an annualized basis. As stated above, the oil pumps and nozzles manufactured by COPN will be used by the Company in the manufacture of its diesel engines, which are in turn to be supplied to CHDTGL and CHDTGL is engaged in, among others, the manufacture and sale of coaches and heavy-duty vehicles. We understand from the Directors that the sales of the coaches and heavy-duty vehicles in the second half of a year are usually higher than in the first half of a year as demand for coaches and heavy-duty vehicles picks up towards the end of a year as a result of stronger demand for transportation services during festive seasons.

We have studied the table set out in the paragraph headed “Uses of the diesel engines of the Company” above and notice that for the six months ended 30 June 2004, the number of diesel engines for heavy-duty vehicles sold by the Company, which amounted to 33,853 units, represented approximately 40.7% of the total number of diesel engines for heavy-duty vehicles sold by the Company for the full year of 2004, which amounted to 83,103 units. Similarly, for the six months ended 30 June 2004, the number of diesel engines for coaches sold by the Company, which amounted to 502 units, represented approximately 34.9% of the total number of diesel engines for coaches sold by the Company for the full year of 2004, which amounted to approximately 1,439 units. In other words, the historical trend of the Company’s operating results have been consistent with the Directors’ understanding of the seasonal change in the market demand for coaches and heavy-duty vehicles.

Furthermore, as the Company will explore from time to time in the market any other independent suppliers of oil pumps and nozzles with an aim to securing transactions on terms which are more favourable to the Company, we consider that it is a prudent approach for the Company not to apply for a growth in the annual cap for 2006.

Based on the above, we consider that the annual caps for 2005 and 2006 under the COPN Supply Agreement are fair and reasonable so far as the Company and the Independent Shareholders are concerned.

## **2. Provision of sales and warranty period repair services by the Company to Weichai Deutz**

### *A. Terms of the WD Sales and Warranty Agreement*

Pursuant to the WD Sales and Warranty Agreement, the Company will provide the sales and warranty period repair and maintenance services to Weichai Deutz’s customers effective from 1 September 2005 and ending on 31 December 2006. The provision of services by the Company to Weichai Deutz’s customers will be charged at a price which is not more favourable to Weichai Deutz than the price at which the Company provides similar services to other independent third party having regard to the quantity and the other conditions of the provision of services.

As advised by the Directors, Weichai Duetz sold its products through its own sales network in the past. However, due to the restructuring of Weichai Factory and its associated companies (including Weichai Deutz), the sales networks of Weichai Factory and its associated companies (including Weichai Deutz) have been combined with that of the Company. As stated in the letter from the Board, the combined strength of the sales network of the Company and Weichai Factory and its associated companies (including Weichai Deutz) will facilitate the Company’s development and expansion of its market share. As such, the Company entered into the WD Sales and Warranty Agreement with Weichai Deutz on 21 September 2005 for providing sales and warranty period repair and maintenance services to the customers of Weichai Deutz with respect to the diesel engines manufactured by Weichai Deutz.

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As stated in the letter from the Board, the terms of the WD Sales and Warranty Agreement were arrived at between the Company and Weichai Deutz after arm's length negotiation. The Directors consider that the WD Sales and Warranty Agreement is conducted on normal commercial terms which are fair and reasonable and in the interests of the shareholders of the Company.

As the WD Sales and Warranty Agreement will provide the Company with an additional opportunity to increase its revenue base and on the basis that the transactions under the WD Sales and Warranty Agreement will be conducted at a price which is no more favourable to Weichai Deutz than the price at which the Company provides similar services to other independent third party having regard to the quantity and other conditions of the services, we consider that the WD Sales and Warranty Agreement is in the interest of the Company and the terms of which are fair and reasonable so far as the Company and its Independent Shareholders are concerned.

*B. Rationale for determining the annual caps for the transactions under the WD Sales and Warranty Agreement*

As advised by the Directors, there is no historical transaction between the Company and Weichai Deutz for the provision of sales and warranty period repair and maintenance services by the Company to Weichai Deutz.

The following sets out the estimated total services fee to be receivable by the Company from Weichai Deutz in relation to the provision of sales and warranty period repair services to the customers of Weichai Deutz for (i) the four months ending 31 December 2005; and (ii) the year ending 31 December 2006:

	<b>Total service fee estimated to be receivable by the Company from WD</b>	
	<i>(RMB' million)</i>	<i>(HK\$' million)</i>
<b>2005</b>		
1 September 2005 — 31 December 2005	7.5	7.2
<b>2006</b>		
1 January 2006 — 31 December 2006	15.0	14.4

As (i) the above annual caps are prepared based on the Company's estimate of the number of diesel engines to be sold by Weichai Deutz to its customers; and (ii) the annual cap for 2006 of RMB15 million represented less than 1% of the audited total turnover of the Company of approximately RMB6,156 million for the year ended 31 December 2004, we consider that the annual caps for 2005 and 2006 to be fair and reasonable so far as the Company and the Independent Shareholders are concerned.

### III. CONTINUING CONNECTED TRANSACTIONS BETWEEN THE COMPANY AND HANGQI

#### 1. Supply of diesel engines by Hangqi to the Company

##### A. *Terms of the Hangqi Supply Agreement*

Pursuant to the Hangqi Supply Agreement, Hangqi has agreed to supply diesel engines to the Company effective from 1 September 2005 and ending on 31 December 2006 on the basis of market price which shall not be more favourable to Hangqi than the price at which Hangqi supplies similar products to other independent third party having regard to the quantity and other conditions of the sales.

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.

It was disclosed in the Prospectus that CHDTGL undertook to the Company that, among others, for so long as CHDTGL or any of its subsidiaries 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 Hangqi.

According to an announcement of the Company dated 27 September 2004, the Company has entered into a framework agreement with CHDTGL, under which CHDTGL permits the Company to conduct due diligence review in relation to Hangqi, and grants an exclusive right to the Company to acquire the assets of Hangqi. As stated in the Company's 2005 interim report, the relevant valuation work on the assets of Hangqi is still in progress. The Directors currently expect that the acquisition can be completed before the end of 2005 if the terms can be agreed by CHDTGL and all relevant approvals required from the PRC government can be obtained and the restructuring of CHDTGL can be completed without delay.

As stated in the letter from the Board, in anticipation of the acquisition of Hangqi by the Company, CHDTGL starts to centralize its sourcing of diesel engines on the Company so that all sales of diesel engines by Hangqi to CHDTGL have to be made through the Company. The Company will purchase the diesel engines from Hangqi at market price and then re-sell them together with other diesel engines manufactured by the Company to CHDTGL at market price. As stated in the letter from the Board, the centralizing of sourcing of CHDTGL on the Company will enhance the competitiveness of the Company in the market and is favourable for the Company in terms of its market share expansion. As such, the Company entered into the Hangqi Supply Agreement on 21 September 2005 with Hangqi for purchasing diesel engines from Hangqi.

As stated in the letter from the Board, the terms of the Hangqi Supply Agreement were arrived at between the Company and Hangqi after arm's length negotiation. The Directors consider that the Hangqi Supply Agreement is conducted on normal commercial terms which are fair and reasonable and in the interests of the shareholders of the Company. On the basis that the transactions under the Hangqi Supply Agreement will be conducted at market price which is no more favourable to Hangqi than the price at which Hangqi supplies similar products to other independent third party having regard to the



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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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quantity and other conditions of the sales, we consider that the Hangqi Supply Agreement is in the interest of the Company and its shareholders as a whole and the terms of which are fair and reasonable so far as the Company and the Independent Shareholders are concerned.

### B. *Rationale for determining the annual caps under the Hangqi Supply Agreement*

As advised by the Directors, there is no historical transaction between the Company and Hangqi for the purchases of diesel engines from Hangqi.

The following sets out the estimated consideration payable by the Company to Hangqi for the purchases of diesel engines from Hangqi for (i) the four months ending 31 December 2005; and (ii) the year ending 31 December 2006:

	<b>Consideration estimated to be payable by the Company to Hangqi for the purchases of diesel engines from Hangqi</b>	
	<i>(RMB' million)</i>	<i>(HK\$' million)</i>
<b>2005</b>		
1 September 2005 — 31 December 2005	480.0	461.5
<b>2006</b>		
1 January 2006 — 31 December 2006	1,000.0	961.5

As stated in the letter from the Board, the annual caps under the Hangqi Supply Agreement are prepared based on the Company's estimate of the number of diesel engines to be sold by Hangqi through the Company to CHDTGL. According to the Directors, CHDTGL purchases diesel engines from either the Company or Hangqi. The purchases from the Company represent approximately 65% of the total purchases by CHDTGL while the purchases from Hangqi represent approximately 35% of the total purchases by CHDTGL. Based on the estimated total value of purchases of diesel engines by CHDTGL from the Company for 2005 of RMB2,600 million according to the 2004 Circular, then the total value of purchases of diesel engines by CHDTGL from Hangqi through the Company is therefore estimated to be RMB910 million for the full year of 2005. After deducting the purchases made by CHDTGL directly from Hangqi before it starts to centralize its sourcing on the Company, the total purchases by CHDTGL from Hangqi through the Company for the four months ending 31 December 2005 shall not exceed RMB480 million.

As advised by the Directors, as CHDTGL starts to centralize its sourcing of diesel engines on the Company, it is expected that the purchases by CHDTGL from the Company will gradually increase in the future while purchases from Hangqi will gradually decrease. Based on the Company's discussion with CHDTGL, the Company estimates that the total purchases of diesel engines by CHDTGL from Hangqi through the Company for 2006 will only represent approximately 24% of the total purchases of diesel engines by CHDTGL. On the basis of the estimated total value of purchases of diesel engines of RMB4,100 million by CHDTGL from the Company for 2006, details of which are

disclosed in the 2004 Circular, the Company estimates that the total purchases by CHDTGL from Hangqi through the Company shall not exceed RMB1,000 million for 2006.

On the basis that the annual caps under the Hangqi Supply Agreement are prepared based on the Company's estimate of the number of diesel engines to be sold by Hangqi through the Company to CHDTGL, which in turn is based on the estimate prepared by CHDTGL as to the number of diesel engines required by it and that such annual caps for 2005 and 2006 have been approved by the independent shareholders of the Company at the general meeting of the Company held on 15 December 2004, we consider that the Hangqi Supply Cap is fair and reasonable so far as the Company and its shareholders are concerned.

## **2. The purchase of oil pumps by Hangqi from the Company**

### *A. Terms of the Hangqi Purchases Agreement*

Pursuant to the Hangqi Purchases Agreement, Hangqi has agreed to purchase oil pumps supplied by the Company on the basis of market price which shall not be more favourable to Hangqi than the price at which the Company supplies similar products to other independent third party having regard to the quantity and other conditions of the sales effective from 1 September 2005 and ending on 31 December 2006.

As advised by the Directors, in order to control the quality of diesel engines manufactured and supplied by Hangqi and to ensure that such diesel engines meet with the technical specifications of CHDTGL, CHDTGL requests that all diesel engines manufactured and supplied by Hangqi to CHDTGL through the Company have to be installed with oil pumps supplied by the Company. As such, the Company entered into the Hangqi Purchases Agreement with Hangqi on 21 September 2005 for supplying oil pumps to Hangqi. As stated in the letter from the Board, the terms of the Hangqi Purchases Agreement were arrived at between the Company and Hangqi after arm's length negotiation. The Directors consider that the Hangqi Purchases Agreement is conducted on normal commercial terms which are fair and reasonable and in the interests of the shareholders of the Company.

According to the Directors, the oil pumps to be supplied by the Company to Hangqi are sourced from COPN. As stated in the letter from the Board, in order to better control the quality of products and the technical specifications, CHDTGL requests that all truck diesel engines supplied by the Company to CHDTGL have to be installed with oil pumps and nozzles manufactured by COPN. Based on our analysis in the section headed "Purchase of oil pumps and nozzles by the Company from COPN" above, we consider that it is in the interests of the Company and its shareholders as a whole to control the quality of the diesel engines to be supplied by Hangqi for the onward sale to CHDTGL.

Furthermore, as stated in the letter from the Board, the Company currently intends to acquire the assets of Hangqi pending completion of the valuation of its assets. As such, we consider that it is in the interests of the Company and its shareholders as a whole to manage both the sales and purchases of Hangqi.

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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On the basis that (i) the transactions under the Hangqi Purchases Agreement will be conducted at market price which is no more favourable to Hangqi than the price at which the Company supplies similar products to other independent third party having regard to the quantity and other conditions of the sales; (ii) the reasons for the purchases of diesel engines from Hangqi by the Company as stated in the above paragraph; and (iii) it is in the interests of the Company to manage both the sales and purchases of Hangqi as an acquisition target of the Company, we consider that the Hangqi Purchases Agreement is in the interest of the Company and its shareholders as a whole and the terms of which are fair and reasonable so far as the Company and the Independent Shareholders are concerned.

### *B. Rationale for determining the annual caps under the Hangqi Purchases Agreement*

As advised by the Directors, there is no historical transaction between the Company and Hangqi for the supply of oil pumps by the Company to Hangqi.

The following sets out the estimated value of supply of oil pumps by the Company to Hangqi for (i) the four months ending 31 December 2005; and (ii) the year ending 31 December 2006:

	<b>Consideration estimated to be received by the Company from Hangqi</b>	
	<i>(RMB' million)</i>	<i>(HK\$' million)</i>
<b>2005</b>		
1 September 2005 — 31 December 2005	80.0	76.9
<b>2006</b>		
1 January 2006 — 31 December 2006	160.0	153.8

According to the Directors, the annual caps for the Hangqi Purchases Agreement are prepared based on (i) the Company's estimate of the number of diesel engines to be sold by Hangqi through the Company to CHDTGL; and (ii) the assumption that the market price of oil pumps will remain stable during 2005 and 2006.

After taking into consideration the reasons for entering into the Hangqi Supply Agreement and the Hangqi Purchases Agreement, details of which have been set out above, we consider the annual caps for the Hangqi Purchases Agreement for 2005 and 2006 to be fair and reasonable.

### **3. Internal control policy**

We understand from the Directors that the management of the Company will set a benchmark price regularly for (i) each type of the products sold by the Company based on the estimation of the costs; and (ii) each type of the Company's purchases of products, semi-finished goods, raw materials and spare parts. Based on such benchmark price, a margin will be set by the Company's senior management which determines the sale price range for each type of the Company's products. The marketing and sales staff are required to solicit sales orders within the relevant price range. Similarly, a price range will be set by the Company's senior management for the purchases of each type of products, semi-finished goods, raw materials and

spare parts and the Company's merchandising staff are required to make any purchase orders within the relevant price range. The same price ranges are applied to all of the Company's customers and suppliers, including the Connected Persons. In the event that the terms of the orders counter-offered by the Connected Persons are not commercially acceptable after reviewing comparable orders from the independent customers/suppliers of the Company, the orders will have to be referred to the senior management who may choose not to accept the orders placed by the Connected Persons. By doing so, the Company endeavours to ensure that the terms of each sales or purchase order made with the Connected Persons are no less favourable to the Company than those offered to independent customers/suppliers having regard to quantity and other conditions of the sale.

On the basis that the New Non-exempt Continuing Connected Transactions are conducted in the ordinary and usual course of business of the Company and on normal commercial terms, we are of the view that the New Non-exempt Continuing Connected Transactions are fair and reasonable so far as the Independent Shareholders are concerned.

#### **4. Conditions of the annual caps under the New Non-exempt Continuing Connected Transactions**

There are certain conditions of the annual cap pursuant to the Listing Rules, in particular, the restriction of the value of the New Non-exempt Continuing Connected Transactions by way of the annual cap for each of the two years ending 31 December 2006 and the annual review by the independent non-executive Directors of the terms of the New Non-exempt Continuing Connected Transactions and the relevant annual caps not being exceeded, details of which must be included in the Company's subsequent published annual reports and accounts. Also, pursuant to the Listing Rules, each year the auditors of the Company must provide a letter to the Board confirming, among other things, that the New Non-exempt Continuing Connected Transactions are conducted in accordance with the pricing policies of the Company and that the relevant caps not being exceeded. 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 its auditors will not be able to confirm the terms of the New Non-exempt Continuing Connected Transactions or the relevant annual caps not being exceeded. We are of the view that there are appropriate measures in place to govern the conduct of the New Non-exempt Continuing Connected Transactions and safeguard the interests of the Independent Shareholders.

### **RECOMMENDATION**

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

- (i) the background of and the reasons for the variations made to the Existing Continuing Connected Transactions;
- (ii) the variations made to the Existing Continuing Connected Transactions will only allow the Company in a more favourable position to formulate its pricing strategy;
- (iii) the background of and the reasons for the New Non-exempt Continuing Connected Transactions;

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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- (iv) the New Non-exempt Continuing Connected Transactions will be conducted in the ordinary and usual course of business of the Company and on normal commercial terms or terms which are no less favourable to the Company than those available to independent customers/suppliers; and
- (v) internal control procedures, including the ongoing review by the management of the Company, annual review by the independent non-executive Directors and confirmation from the auditors of the Company in respect of the terms of the New Non-exempt Continuing Connected Transactions Agreements, are in place to monitor and to compare the terms and conditions of the New Non-exempt Continuing Connected Transactions Agreements,

we are of the opinion that the variations to the Existing Continuing Connected Transactions and the New Non-exempt Continuing Connected Transactions are in the interests of the Company and its shareholders as a whole, and the terms of the WF General Services Supplemental Agreement, the WF Utility Services Supplemental Agreement, the CW General Services Supplemental Agreement, the CW Utility Services Supplemental Agreement, the Processing Services Supplemental Agreement and the New Non-exempt Continuing Connected Transactions Agreements including the Transaction Caps are fair and reasonable so far as the Independent Shareholders are concerned. Accordingly, we would advise the Independent Board Committee and the Independent Shareholders that the Independent Shareholders should vote in favour of the ordinary resolutions to approve the WF General Services Supplemental Agreement, the WF Utility Services Supplemental Agreement, the CW General Services Supplemental Agreement, the CW Utility Services Supplemental Agreement, the Processing Services Supplemental Agreement, the COPN Supply Agreement, the WD Sales and Warranty Agreement, the Hangqi Supply Agreement and the Hangqi Purchases Agreement and the Transaction Caps at the EGM.

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

1. RESPONSIBILITY STATEMENT

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

2. DISCLOSURE OF INTERESTS

As at the Latest Practicable Date, the interests and short positions of the directors and supervisors 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.
3. Yeung Sai Hong, a Director, was directly and indirectly interested in the entire issued share capital of Peterson Holdings Company Limited (培新控股有限公司), which in turn held 23,500,000 Domestic Shares.

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

3. SUBSTANTIAL SHAREHOLDERS

As at the Latest Practicable Date, insofar as the Directors are 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
濰坊市投資公司 (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 G.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	—	13,516,869	10.69%	Investment Manager	Long
FMR Corp	Nil	—	13,242,000	10.47%	Investment Manager	Long

*Notes:*

1. 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.
2. 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.
3. 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.
4. 濰坊市投資公司 (Weifang Investment Company) was a State-owned enterprise.
5. 深圳市投資管理公司 (Shenzhen Investment Management Company) was interested in approximately 33.73% of the capital of 深圳市創新投資集團有限公司 (Shenzhen Chuangxin Investment Group Company Limited).
6. ADTECH Advanced Technologies AG was wholly owned by Julius G. Kiss, a non-executive Director, and it was interested in the entire capital of IVM Technical Consultants Wien G.m.b.H.
7. 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.
8. 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.
9. 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.
10. The English translations of the Chinese names in the above table and notes were prepared by the Company for information purpose only and should not be relied upon.



#### 4. ARRANGEMENTS AND MATTERS CONCERNING DIRECTORS

- (a) Each of the executive Directors has entered into a service contract with the Company for a term commencing on 24th November, 2003 and ending on 17th December, 2005. Terms of the service contracts of such executive Directors are in all material respects the same. The term of appointment of each of the non-executive Directors and the Supervisors is from 18th December, 2002 to 17th December, 2005, save and except that the term of appointment of Chen Xue Jian (a non-executive Director) is from 29th June, 2004 to 17th December, 2005. Each of the independent non-executive Directors has a fixed term of appointment which commenced on the date of the AGM and will end on (i) the conclusion of the Next AGM; or (ii) the conclusion of the extraordinary general meeting (if any) of the Company convened prior to the Next AGM at which he is re-appointed as independent non-executive Director for a term beyond the conclusion of the Next AGM (whichever is the earlier). None of the Directors has entered into any service contract with the Company which is not determinable by the Company within one year without payment of compensation (other than the payment of statutory compensation).
- (b) As at the Latest Practicable Date, none of the Directors was interested, directly or indirectly, in any assets which had since 31st December, 2004, being 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.
- (c) As at the Latest Practicable Date, none of the Directors was materially interested in any contract or arrangement subsisting at the Latest Practicable Date and entered into by the Company since 31st December, 2004, being the date to which the latest published audited accounts of the Company were made up, and which was significant in relation to the business of the Company.
- (d) Mr. Tan Xuguang, an executive Director, is a deputy general manager of CHDTGL. CHDTGL wholly owns 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. As at the Latest Practicable Date, save as disclosed herein, none of the Directors or their respective associates had any interest in a business which competes or may compete with the business of the Company.
- (e) 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 197, Section A, Fu Shou East Street, High Technology Industrial Development Zone, Weifang City, Shandong Province, the PRC. 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. LITIGATION

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

**6. MATERIAL ADVERSE CHANGE**

The Directors are not aware of any material adverse change in the financial or trading position of the Company since 31st December, 2004, the date to which the latest audited financial statements of the Company were made up.

**7. EXPERT**

- (a) AMS Corporate Finance Limited, the Independent Financial Adviser, is a corporation licensed 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.
- (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.

**8. GENERAL**

- (a) The secretary and qualified accountant of the Company is Mr. Zhang Yuanfu. Mr. Zhang is an associate member of the Hong Kong Institute of Certified Public Accountants.
- (b) The registered office of the Company is at 197, Section A, Fu Shou East Street, High Technology Industrial Development Zone, Weifang City, Shandong Province, The People's Republic of China.
- (c) The principal place of business of the Company in Hong Kong is at Suite 2501–2, 25th Floor, One International Finance Centre, 1 Harbour View Street Central, Hong Kong.
- (d) The H share registrar and transfer office of the Company in Hong Kong is Computershare Hong Kong Investor Services Limited at Shops 1712–1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong.
- (e) In the event of inconsistency, the English text of this circular shall prevail over the Chinese text.

**9. 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 20th October, 2005 to 3rd November, 2005 (both days inclusive):

- (a) the service contracts of the executive Directors;
- (b) the letter from the Independent Financial Adviser as set out in this circular;
- (c) the written consent from the 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;
- (e) the WF General Services Agreement, the WF Utility Services Agreement, the CW General Services Agreement, the CW Utility Services Agreement and the Processing Services Agreement;
- (f) the 2004 Circular;
- (g) the WF General Services Supplemental Agreement, the WF Utility Services Supplemental Agreement, the CW General Services Supplemental Agreement, the CW Utility Services Supplemental Agreement and the Processing Services Supplemental Agreement;
- (h) the COPN Supply Agreement, the WD Sales and Warranty Agreement, the Hangqi Purchases Agreement and the Hangqi Supply Agreement; and
- (i) the Prospectus.



**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 Monday, 5th December, 2005, 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 of the Company. Unless the context requires otherwise, terms defined in the circular to the shareholders of the Company dated 20th October, 2005 of which the following resolution forms part (the “**Circular**”) shall have the same meanings herein:

## **ORDINARY RESOLUTIONS**

1. “THAT the WF General Services Supplemental Agreement relating to the variation of the basis of calculating the service charge payable by the Company to Weichai Factory for the provision of certain general services by Weichai Factory to the Company be and is hereby approved”;
2. “THAT the WF Utility Services Supplemental Agreement relating to the variation of the basis of calculating the service charge payable by the Company to Weichai Factory for the provision of or the provision of connection of certain utility and energy services by Weichai Factory to the Company be and is hereby approved”;
3. “THAT the CW General Services Supplemental Agreement relating to the variation of the basis of calculating the service charge payable by the Company to Chongqing Weichai for the provision of certain general services by Chongqing Weichai to the Company be and is hereby approved”;
4. “THAT the CW Utility Services Supplemental Agreement relating to the variation of the basis of calculating the service charge payable by the Company to Chongqing Weichai for the provision of or the provision of connection of certain utility and energy services by Chongqing Weichai to the Company be and is hereby approved”;
5. “THAT the Processing Services Supplemental Agreement relating to the variation of the basis of calculating the service charge payable by the Company to Chongqing Weichai for the provision of processing services by Chongqing Weichai to Chongqing Branch be and is hereby approved”;

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6. “THAT the COPN Supply Agreement and the relevant Transaction Caps as set out in the paragraph headed “Aggregate Annual Value” in the section headed “Letter from the Board” of the Circular relating to the supply of oil pumps by COPN to the Company be and are hereby approved”;
7. “THAT the WD Sales and Warranty Agreement and the relevant Transaction Caps as set out in the paragraph headed “Aggregate Annual Value” in the section headed “Letter from the Board” of the Circular relating to the provision of sales and warranty period repair and maintenance services by the Company to Weichai Deutz’s customers be and are hereby approved”;
8. “THAT the Hangqi Purchases Agreement and the relevant Transaction Caps as set out in the paragraph headed “Aggregate Annual Value” in the section headed “Letter from the Board” of the Circular relating to the supply of oil pumps by the Company to Hangqi be and are hereby approved”;
9. “THAT the Hangqi Supply Agreement and the relevant Transaction Caps as set out in the paragraph headed “Aggregate Annual Value” in the section headed “Letter from the Board” of the Circular relating to the purchases of diesel engines by the Company from Hangqi be and are hereby approved”;
10. “THAT Mr. Tan Xuguang be re-elected as an executive director of the Company for a term of 3 years as from 18th December, 2005 to 17th December, 2008 (both days inclusive)”;
11. “THAT Mr. Xu Xinyu be re-elected as an executive director of the Company for a term of 3 years as from 18th December, 2005 to 17th December, 2008 (both days inclusive)”;
12. “THAT Mr. Sun Shaojun be re-elected as an executive director of the Company for a term of 3 years as from 18th December, 2005 to 17th December, 2008 (both days inclusive)”;
13. “THAT Mr. Zhang Quan be re-elected as an executive director of the Company for a term of 3 years as from 18th December, 2005 to 17th December, 2008 (both days inclusive)”;
14. “THAT Mr. Yeung Sai Hong be re-elected as a non-executive director of the Company for a term of 3 years as from 18th December, 2005 to 17th December, 2008 (both days inclusive)”;
15. “THAT Mr. Chen Xuejian be re-elected as a non-executive director of the Company for a term of 3 years as from 18th December, 2005 to 17th December, 2008 (both days inclusive)”;
16. “THAT Mr. Yao Yu be re-elected as a non-executive director of the Company for a term of 3 years as from 18th December, 2005 to 17th December, 2008 (both days inclusive)”;
17. “THAT Mr. Li San Yim be re-elected as a non-executive director of the Company for a term of 3 years as from 18th December, 2005 to 17th December, 2008 (both days inclusive)”;

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18. “THAT Mr. Tong Jingen be re-elected as a non-executive director of the Company for a term of 3 years as from 18th December, 2005 to 17th December, 2008 (both days inclusive)”;
19. “THAT Ms. Zhang Fusheng be re-elected as a non-executive director of the Company for a term of 3 years as from 18th December, 2005 to 17th December, 2008 (both days inclusive)”;
20. “THAT Mr. Julius G. Kiss be re-elected as a non-executive director of the Company for a term of 3 years as from 18th December, 2005 to 17th December, 2008 (both days inclusive)”;
21. “THAT Ms. Han Xiaoqun be appointed as a non-executive director of the Company for a term of 3 years as from 18th December, 2005 to 17th December, 2008 (both days inclusive)”;
22. “THAT Mr. Zhang Xiaoyu be elected as an independent non-executive director of the Company for a term of 3 years as from 18th December, 2005 to 17th December, 2008 (both days inclusive) and the Existing INED Term shall expire on 18th December, 2005”;
23. “THAT Mr. Koo Fook Sun, Louis be re-elected as an independent non-executive director of the Company for a term of 3 years as from 18th December, 2005 to 17th December, 2008 (both days inclusive) and the Existing INED Term shall expire on 18th December, 2005”;
24. “THAT Mr. Fang Zhong Chang be re-elected as an independent non-executive director of the Company for a term of 3 years as from 18th December, 2005 to 17th December, 2008 (both days inclusive) and the Existing INED Term shall expire on 18th December, 2005”;
25. “THAT Mr. Sun Chengping be re-elected as a supervisor of the Company for a term of 3 years as from 18th December, 2005 to 17th December, 2008 (both days inclusive)”;
26. “THAT Ms. Jiang Jianfang be re-elected as a supervisor of the Company for a term of 3 years as from 18th December, 2005 to 17th December, 2008 (both days inclusive)”;
27. “THAT the remuneration committee of the Company be and is hereby authorized to fix the basic salary for an amount not exceeding RMB600,000 per annum for each of the Directors and the Supervisors”.

By Order of the Board of Directors  
**Weichai Power Co., Ltd.**  
**Tan Xuguang**  
*Chairman*

20th October, 2005

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

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

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**Registered office:**

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

**Notes:**

- (A) The Company will not process registration of transfers of H Shares from Saturday, 5th November, 2005 to Monday, 5th December, 2005 (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 on Monday, 5th December, 2005 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, 4th November, 2005. 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 Tuesday, 15th November, 2005. 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) 229 7068  
Facsimile No. : 86 (536) 819 7073

- (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

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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 197, Section A, Fu Shou East Street, High Technology Industrial Development Zone, Weifang City, 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.