濰柴動力股份有限公司

Weichai Power Co., Ltd.

(Stock Code: 2338)

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

INTERIM RESULTS ANNOUNCEMENT
FOR THE SIX MONTHS ENDED 30TH JUNE, 2004 (UNAUDITED)

The board of directors (the "Board") of Weichai Power Co., Ltd. (the "Company") is pleased to announce the unaudited results of the Company for the six months ended 30th June, 2004 as follows:

HIGHLIGHTS

• Turnover	+ 60.7% to RMB2,801.8 million
• Gross profit	+ 69.0% to RMB617.2 million
• Profit attributable to shareholders	+ 102.4% to RMB248.6 million
• Net cash and cash equivalents	RMB1,544.2 million
• Interim dividend per share	RMB0.15 per share

- Successfully listed our H shares on the Main Board of The Stock Exchange of Hong Kong Limited on 11th March, 2004. The net IPO proceeds were approximately RMB1,226.9 million

- Recorded high turnover and profit growth due to the significant increase in production and sales volume

- Improved gross and net profit margins due to our ability to achieve economies of scale and better control of production costs and in particular, our flexible use of our production lines for different product mix

- Continued expansion of our customer base and consolidation of our leading position in our principal product markets, namely the 15 tonnes (and above) heavy-duty trucks and 5 tonnes (and above) wheel-loaders sectors with our market shares at approximately 75% and 73%, respectively

- Achieved outstanding performance by offering quality products despite the negative market sentiment arising from the macro-austerity measures implemented by the central PRC government

- Financial position significantly enhanced after the IPO

CHAIRMAN'S STATEMENT

I am pleased to announce the unaudited interim results of Weichai Power Co., Ltd. (the "Company") for the six months ended 30th June, 2004 (the "Period") on behalf of the board (the "Board") of the directors (the "Directors") of the Company.

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

The H shares of the Company have been successfully listed on the Main Board of The Stock Exchange of Hong Kong (the "Stock Exchange") since 11th March, 2004.

The Company is principally engaged in the manufacture and sale of high-speed, heavy-duty WD615 and WD618 diesel engines and other related parts and products. The Company manufactures four series of WD615 diesel engines (the "WD615 Engines"), namely vehicle engines (for heavy-duty vehicles and coaches), construction machine engines, vessel engines and power generator engines. WD615 Engines are water-cooled, linear, 6-cylinder, turbo-charging, high-speed diesel engines, which can generate a power of 110–266 kW and have met the Euro II emission standards. The Company also manufactures WD618 diesel engines (the "WD618 Engines"), which are a new series of diesel engines developed based on the WD615 series. In addition to having all the major features of the WD615 Engines, WD618 Engines, with larger displacement, can generate a power of 265–323 kW. The Company's WD618 Engines have also met the Euro II emission standards. As a leading manufacturer of the diesel engines in the PRC, the Company's market shares in supplying heavy-duty vehicles with a load capacity of 15 tonnes (and above) and wheel-loaders with a load capacity of 5 tonnes (and above) are approximately 75% and 73%, respectively.

Supported by our advanced production technology, high production capacity and experienced staff, we are able to supply a diverse range of quality products to our customers at very competitive prices. Leveraging on our strengths, for the Period, the Company achieved a turnover of approximately RMB2,801.8 million, representing a 60.7% increase over the same period in 2003, and a net profit attributable to shareholders of approximately RMB248.6 million, representing an increase of 102.4% over the same period in 2003.

In order to finance our business expansion and to strengthen our capital base, the Company conducted an initial public offering (the "IPO") and our H shares were successfully listed on the Main Board of the Stock Exchange on 11th March, 2004. The IPO was well received by international investors and the public investors in Hong Kong. The international placing was over-subscribed by over approximately 52 times and the Hong Kong public offer recorded an impressive subscription rate of over approximately 928 times. The net proceeds from the IPO were approximately RMB1,226.9 million (including the funds raised as a result of the exercise of the over-allotment option in connection with the IPO on 11th March, 2004). Such net proceeds are being used to implement the future plans as stated in the prospectus of the Company dated 26th February, 2004 (the "Prospectus").

The success of the IPO reflects investors' confidence in the future growth of the heavy-duty diesel engines industry in the PRC and the prospects of the Company. The management is deeply encouraged by the offering results.

INTERIM DIVIDEND

In view of the outstanding results achieved by the Company during the Period, the Board has declared an interim dividend of RMB0.15 per share payable to the shareholders of the Company whose names appear in the registers of members of the Company on 14th September, 2004.

FUTURE OUTLOOK AND STRATEGY

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

The Company is set to further expand our production capacity and the range of high value-added products. To this end, the second new production line with an annual capacity of over 30,000 sets of diesel engines is expected to commence commercial production in the second quarter of 2005. We will also improve our information system and employ high-calibre staff to further strengthen our senior management capability. From time to time, we will assess the market demand and, if necessary, implement appropriate expansion plans to further increase our production capacity. Our strategy is to leverage on our strong financial position and technical expertise as well as the experience of our strong management team to grow our business by a combination of further development of and investment in our existing core business and, or establishment of strategic alliance and, or synergistic acquisitions. We have indicated in our Prospectus that we may purchase the business of 杭州汽車發動機廠 (Hangzhou Motor Engine Factory ("Hangqi"), which is a fellow subsidiary with Weichai Factory) in the future, subject to the prevailing market situation as well as the financial conditions and operating performances of both the Company and Hangqi, and compliance with the disclosure, shareholders' approval and other requirements of the Listing Rules. We continue to evaluate the feasibility of acquiring the business or assets of Hangqi, but such evaluation is still at a preliminary stage at the date of this announcement.

The successful listing on the Main Board of the Stock Exchange is a milestone of the Company's further expansion. The Company will leverage on its competitive advantages, to seize every business opportunity to further expand and consolidate its market shares in different product industries that we target at. We strive to maximize shareholders' return and share with them the happiness of the success of the Company's continuous growth.

Mr. Tan Xuguang
Chairman and CEO

CONDENSED INCOME STATEMENT
FOR THE SIX MONTHS ENDED 30TH JUNE, 2004

		Six months ended	
		30.6.2004	**30.6.2003**
	NOTES	***RMB'000***	*RMB'000*
		(unaudited)	(unaudited)
Turnover		**2,801,788**	1,743,858
Cost of sales		**(2,184,581)**	(1,378,679)
Gross profit		**617,207**	365,179
Other operating income		**36,606**	8,603
Distribution expenses		**(131,905)**	(88,802)
Administrative expenses		**(116,399)**	(64,819)
Research and development expenses		**(16,624)**	(4,088)
Other operating expenses		**(670)**	(2,634)
Profit from operations	4	**388,215**	213,439
Finance costs	5	**(31,296)**	(9,486)
Profit before taxation		**356,919**	203,953
Income tax expense	6	**(108,320)**	(81,146)
Profit for the period		**248,599**	122,807
Dividend paid	7	**22,575**	—
Basic earnings per share	8	**RMB0.87**	RMB0.57

CONDENSED CASH FLOW STATEMENT
FOR THE SIX MONTHS ENDED 30TH JUNE, 2004

	Six months ended	
	30.6.2004	**30.6.2003**
	RMB'000	*RMB'000*
	(unaudited)	(unaudited)
Net cash from operating activities	**752,503**	396,481
Net cash used in investing activities	**(658,106)**	(268,696)
Net cash from (used in) financing		
Proceeds on issue of shares	**1,293,297**	—
Other financing cash flows	**(181,669)**	(1,003)
	1,111,628	(1,003)
Net increase in cash and cash equivalents	**1,206,025**	126,782
Cash and cash equivalents brought forward	**338,219**	136,003
Cash and cash equivalents carried forward, represented by bank balances and cash	**1,544,244**	262,785

NOTES TO THE CONDENSED FINANCIAL STATEMENTS
FOR THE SIX MONTHS ENDED 30TH JUNE, 2004

1. BASIS OF PREPARATION

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

The H shares of the Company have been listed on the Main Board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange") since 11th March, 2004.

The condensed financial statements have been prepared in accordance with the applicable disclosure requirements of Appendix 16 to the Rules Governing the Listing of Securities on the Stock Exchange and with Statement of Standard Accounting Practice No. 25 "Interim Financial Reporting" issued by the Hong Kong Society of Accountants.

2. PRINCIPAL ACCOUNTING POLICIES

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

The accounting policies adopted are consistent with those followed in the preparation of the Company's Accountants' Report as set out in Appendix I to the prospectus of the Company dated 26th February, 2004.

3. SEGMENT INFORMATION

The Company was solely engaged in the business of manufacture and sale of WD615 and WD618 diesel engines and substantially all of the Company's turnover and operating results were derived from the PRC and accordingly, no analysis of business and geographical segment is presented.

4. PROFIT FROM OPERATIONS

	Six months ended	
	30.6.2004	**30.6.2003**
	RMB'000	*RMB'000*
	(unaudited)	(unaudited)
Profit from operations has been arrived at after charging:		
Depreciation and amortisation of property, plant and equipment	**23,693**	13,758
Amortisation of intangible assets	**33,705**	—
and after crediting:		
Bank interest income	**7,021**	225

5. FINANCE COSTS

During the Period, the finance costs represent interest expenses on bank borrowings wholly repayable within five years.

6. INCOME TAX EXPENSE

	Six months ended	
	30.6.2004	**30.6.2003**
	RMB'000	*RMB'000*
	(unaudited)	(unaudited)
The PRC income tax	**137,706**	81,146
Reinvestment tax credit	**(29,386)**	—
	108,320	81,146

PRC income tax was calculated at the statutory income tax rate of 33% (six months ended 30th June, 2003: 33%) of the assessable profit except that the Company's Chongqing branch is taxed at a preferential rate of 15% pursuant to the relevant laws and regulations in the PRC.

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

Pursuant to a notice dated 14th January, 2000 issued jointly by the Ministry of Finance and the State Tax Bureau, which was also subsequently confirmed by the Weifang Municipal Tax Bureau, the Company, being a joint stock limited company, is entitled to a tax benefit ("Tax Benefit"), which is calculated as 40% of the current year's additions of PRC produced plant and equipment for production use. The Tax Benefit is, however, limited to the amount of increase in enterprise income tax for the current year in which the plant and equipment are acquired as compared with the tax amount of the preceding year. The portion of the Tax Benefit that is not utilised can be carried forward for future application for a period of not more than five years from the year in which the plant and equipment are acquired.

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

7. DIVIDEND

In May 2004, a dividend of RMB0.105 per share (2003: Nil) amounting to RMB22,575,000 (2003: Nil) was paid to shareholders as the final dividend for 2003.

The Directors have determined that an interim dividend of RMB0.15 (2003: RMB0.095) per share should be paid to the shareholders of the Company whose names appear in the Register of Members on 14th September, 2004.

8. BASIC EARNINGS PER SHARE

The calculation of basic earnings per share is based on the net profit for the Period of approximately RMB248,599,000 (six months ended 30th June, 2003: RMB122,807,000) and on the weighted average number of 285,769,231 (six months ended 30th June, 2003: 215,000,000) ordinary shares in issue during the Period.

9. TRADE DEBTORS

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

	30.6.2004	**31.12.2003**
	RMB'000	*RMB'000*
	(unaudited)	(audited)
Third party customers	**286,013**	198,583
Related party customers	**136,898**	31,719
	422,911	230,302

An ageing analysis is as follows:

Within 90 days	**390,830**	200,323
Between 91 to 180 days	**11,082**	17,936
Between 181 to 365 days	**10,768**	5,975
Over 365 days	**10,231**	6,068
	422,911	230,302

10. TRADE CREDITORS

An analysis of trade creditors is as follows:

	30.6.2004	**31.12.2003**
	RMB'000	*RMB'000*
	(unaudited)	(audited)
Third party suppliers	**657,716**	382,858
Related party suppliers	**158,808**	26,926
	816,524	409,784

An ageing analysis is as follows:

Within 90 days	**803,103**	339,144
Between 91 to 180 days	**4,401**	56,972
Between 181 to 365 days	**3,287**	8,272
Over 365 days	**5,733**	5,396
	816,524	409,784

11. BANK BORROWINGS

During the period, the Company made early repayment of bank borrowings of approximately RMB100,000,000.

12. SHARE CAPITAL

	Number of shares Domestic shares *'000*	H shares *'000*	Registered, issued and fully paid *RMB'000*
At 1st January, 2003 and 1st January, 2004	215,000	—	215,000
Conversion of certain state-owned domestic shares to H shares *(Note)*	(11,500)	11,500	—
Issue of H shares upon listing on the Main Board of the Stock Exchange (including those converted from domestic shares)	—	115,000	115,000
At 30th June, 2004	203,500	126,500	330,000

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

13. PLEDGE OF ASSETS

At 30th June, 2004, bank deposits and bills receivables of approximately RMB629,405,000 (31.12.2003: RMB391,578,000) and RMB110,540,000 (31.12.2003: RMB77,115,000) respectively were pledged to secure banking facilities granted to the Company.

14. CAPITAL COMMITMENTS

	30.6.2004 ***RMB'000*** **(unaudited)**	**31.12.2003** *RMB'000* (audited)
Capital expenditure contracted for but not provided in the financial statements in respect of:		
Purchase of property, plant and equipment	**399,778**	208,287
Acquisition of trademarks	**—**	124,448
	399,778	332,735

15. OTHER COMMITMENTS

In August 2003, in conjunction with China Heavy Duty Truck Group Co. Ltd. ("CHDTGL") and its subsidiaries ("China Heavy Duty Truck Group"), the Company entered into a research and development contract with AVL List GmbH, a third party, with a contract sum of Euro 6.1 million (equivalent to approximately RMB63,586,000). Weifang Diesel Engine Works ("Weichai Factory") is wholly-owned by CHDTGL, therefore, CHDTGL is a connected person of the Company.

As at 30th June, 2004, the outstanding commitment amounted to approximately Euro3,848,000, equivalent to approximately RMB40,110,000 (31.12.2003: Euro3,965,000, equivalent to approximately RMB41,331,000).

16. OPERATING LEASE COMMITMENTS

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

	30.6.2004	31.12.2003
	RMB'000	*RMB'000*
	(unaudited)	(audited)
Within one year	**47,402**	47,296
In the second to fifth year inclusive	**139,152**	162,383
	186,554	209,679

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

MANAGEMENT DISCUSSION AND ANALYSIS

Industry Review

The Company is one of the PRC's leading high-speed, heavy-duty diesel engine manufacturers, supplying mainly to certain major domestic truck and construction machine makers. The Company's core products are its six-cylinder, 110–266kW output, 9.7 litre displacement WD615 diesel engines. The Company also launched the WD618 series in 2000, which have a higher power output of 265–323kW.

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

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

Notes:

1. Euro I Standards means the set of standards that limits the emission of carbon monoxide at 4.5g/kWh, hydrocarbons at 1.1g/kWh, nitrogen oxides at 8.0g/kWh, and particulate matters at 0.36g/kWh.
2. Euro II Standards means the set of standards that limits 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.

Heavy-duty vehicles industry

The development of road system, especially highway system, and the strong economic growth in the PRC have stimulated the sale of vehicles, especially heavy-duty vehicles in the PRC. Furthermore, highway transportation services, being more economical and efficient, has outgrown the production of heavy-duty vehicles in the PRC in recent years. Sales of heavy-duty vehicles have been rising very rapidly in recent few years, and the production of heavy-duty vehicles has surpassed that of medium-duty vehicles. A sizeable proportion of the unit sales of heavy-duty vehicle with a load capacity of 15 tonnes (and above) in the PRC is comparatively concentrated in a few manufacturers including: China Heavy Duty Truck Group Company Limited ("CHDTGL"), Chongqing Hongyan Heavy Duty Motor Company Limited ("Chongqing Hongyan"), Shaanxi Heavy-duty Company Limited ("Shaanxi Motor"), Beijing Futian Motor Company Limited ("Beijing Futian"), etc. and we believe that approximately 75% of the diesel engines used in their trucks had been sourced from the Company. Although in the six months ended 30th June, 2004, the PRC central government implemented a series of austerity measures, the sales growth of heavy-duty vehicles with a load capacity of 8 tonnes (and above) slowed very mildly. In the PRC, the total sales of heavy-duty vehicles with a load capacity of 8 tonnes (and above) for the six months ended 30th June, 2004 rose by 60.7% as compared with that of the same period of 2003. Although sales of trucks with load capacity of 8 to 10 tonnes remained sluggish, with the PRC's principal truck makers having recorded around below 5% in growth, major truck manufacturers with a load capacity of 15 tonnes (and above) recorded very impressive growth rates of around 50% to 200% on average.

An estimated 80% of the medium to heavy-duty trucks in the PRC are frequently overloaded. Lower toll charges for smaller trucks are the main attractions for overloading. The PRC central government is cracking down hard on the widespread practice of truck overloading. This has stimulated the demand for heavy-duty vehicles with a load capacity of 15 tonnes (and above) and also quickened the pace of truck-capacity upgrading in the PRC.

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

Construction machines — wheel loaders

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

In recent years, the wheel loader market grew by over 30% year-on-year. During the Period, the central government of the PRC implemented a series of austerity measures with the credit-tightening policies hitting the sales of some categories of the construction machines such as excavators to a certain extent. But there is no clear sign of over supply of construction machines, especially in wheel loaders with a load capacity of 5 tonnes (and above). The sales growth of wheel loaders only slowed down mildly since the implementation of the said austerity measures. A sizeable proportion of the sales of construction machines with a load capacity of 5 tonnes (and above) in the PRC is concentrated in a few manufacturers including: Guangxi Liugong Machinery Co., Ltd. ("Guangxi Liugong"), Shanghai Longgong Machinery Company Limited ("Shanghai Longgong"), Fujian Longyan Construction Machinery Co., Ltd (the "Fujian Longgong"), etc. We believe that over approximately 73% of the diesel engines used in their construction machines had been sourced from the Company.

Business Review

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

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

Turnover of the Company for the Period amounted to approximately RMB2,801.8 million, representing an increase of approximately RMB1,057.9 million or 60.7% over the same period in 2003. Turnover was derived mainly from the sale of diesel engines used in heavy-duty trucks and construction machines, which accounted for approximately 53.2% and 36.0% of the total turnover, respectively. The significant increase in turnover was mainly attributable to the robust market demand for our WD615 Engines. To meet increasing demand, the Company has further expanded its production capacity and improved its operational efficiency during the Period. The expansion in scale also enabled the Company to achieve economies of scale and adopt a more flexible and competitive pricing strategy for our products. As a result of the above factors, the Company's net profit for the Period increased to RMB248.6 million, representing a 102.4% increase as compared that for the same period in 2003.

The Company has a very stable customer base which includes certain well-known market leaders in their industries including: CHDTGL, Chongqing Hongyan, Shaanxi Motor, Guanxi Liugong and Shanghai Longgong, etc. During the Period, sales to our top five customers accounted for 57% of our total turnover and top ten customers represented approximately 75% of our total turnover.

FINANCIAL REVIEW

Finance costs

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

The Company maintained very low bank borrowings. Total bank loans decreased from RMB151.7 million in 2003 to only RMB51.7 million in 2004 due to sufficient operating cash being generated from the business during the Period. The increase in finance costs was mainly due to that certain bills receivables were discounted to banks and this led to the increase in finance costs from approximately RMB9.5 million in the six months ended 30th June, 2003 to approximately RMB31.3 million for the Period in 2004.

Taxation

PRC income tax for the Company was calculated at the statutory income tax rate of 33% (six months ended 30th June, 2003: 33%) of the assessable profit except that the Company's Chongqing branch is taxed at a preferential rate of 15% pursuant to the relevant laws and regulations in the PRC. The tax charges during the Period were approximately RMB108.3 million in aggregate, representing an effective tax rate of 30.3% (six months ended 30th June, 2003: 39.8%). The difference in the effective tax rate of 30.3% compared to the statutory rate of 33% was due to that the Company was granted a tax credit of approximately RMB29,386,000 relating to the acquisition of PRC produced plant and equipment. The amount of tax credit is calculated as 40% of the current year's additions of PRC produced plant and equipment for production use.

Net profit margin

The net profit margin increased substantially from approximately 7.0% for the six months ended 30th June, 2003 to approximately 8.9% for the Period, which was primarily due to the improvement in operational efficiency, benefit from the economy of scale enjoyed by the Company and the tax credit granted to the Company as mentioned above.

Liquidity and financial resources

Our day-to-day funding requirements and capital expenditures were met by our internal cash flow from our business operation. The Company has uncommitted bank loan facilities provided by its local principal bankers.

The Company had a very solid financial position and maintained a strong and steady cash inflow from its operating activities. As at 30th June, 2004, the cash and cash equivalent of the Company amounted to approximately RMB1,544.2 million, representing an increase of 487.6% from RMB262.8 million as at 30th June, 2003. Such increase was primarily due to the cash inflow from operations and the net IPO proceeds of approximately RMB1,226.9 million received by the Company in March 2004.

The Company has sufficient financial resources to fund its operations, as well as its current investment needs and development plans disclosed in the Prospectus.

Earnings per share — basic

The calculation of basic earnings per share is based on the net profit attributable to shareholders for the Period of approximately RMB248.6 million and on the weighted averaged number of 285,769,231 ordinary shares. The basic earnings per share for the Period was RMB0.87 in 2004 , which represented an increase of 52.7% compared with the same period in 2003. The significant increase in earnings per share was due to the increase in net profit attributable to shareholders for the Period by 102.4% compared to that of the same period in 2003. It also represented approximately 89.6% of the net profit attributable to shareholders for the full year of 2003.

Capital structure

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

It is the intention of the Company to maintain an appropriate mix of equity and debt to ensure an efficient capital structure from time to time. As at 30th June, 2004, the Company had debts of approximately RMB51.7 million and the gearing ratio was only a mere 1.04% (total debt/total asset).

Foreign exchange risk exposure

As almost all of the income and expenditure of the Company were denominated in RMB and Hong Kong dollars for the Period, the Company did not experience any material difficulties or effects on its operations or liquidity as a result of fluctuations in currency exchange during the Period. The Directors believe that the Company will have sufficient foreign exchange to meet its foreign exchange requirements.

Contingent liabilities

The Company had no material contingent liabilities as at 30th June, 2004.

Human resources practice

As at 30th June, 2004, the Company had a total of over 5,400 employees. Employee are remunerated based on their performance, experience and the prevailing industry practices, with compensation policies and packages being reviewed on a yearly basis. Bonus and commission may also be awarded to employees based on internal performance evaluation.

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

REGISTER OF MEMBERS

The Register of Members of the Company will be closed from 10th September, 2004 to 14th September, 2004 (both days inclusive) during which no transfer of shares will be registered. In order to qualify for the interim divided, all transfers of H Shares of the Company, 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 9th September, 2004.

PURCHASE, SALE OR REDEMPTION OF SECURITIES

Other than pursuant to the IPO, there was no purchase, sale or redemption of any of the Company's securities by the Company during the six months ended 30th June, 2004.

AUDIT COMMITTEE

The audit committee of the Company (the "Audit Committee") is composed of its all independent non-executive directors, namely Mr. Zhang Xiaoyu and Mr. Koo Fook Sun Louis. The principal duties of the Audit Committee are to review, together with management and the Company's internal and external auditors, the internal and external findings, the accounting principles and practices adopted by the Company and auditing, internal control, risk management and financial reporting matters. The Company's external PRC auditors, 山東正源和信有限責任會計師事務所 have audited the interim financial statements and have issued an unqualified auditors' report. The international auditors of the Company, Deloitte Touche Tohmatsu have also reviewed the unaudited interim financial statements for the Period. In accordance with the requirements of paragraph 39 of Appendix 16 of the Listing Rules, the Audit Committee has reviewed the interim financial statements for the Period prior to recommending them to the Board for approval.

COMPLIANCE WITH THE CODE OF BEST PRACTICE AND MODEL CODE

None of the Directors is aware of any information which would reasonably indicate that the Company is not, or was not for any part of the period commencing on the date of the listing of the Company's H shares on the Stock Exchange and ending on 30th June, 2004, in compliance with the Code of the Best Practice as set out in Appendix 14 of the Rules Governing the Listing of Securities on the Stock Exchange.

From the date of the listing of the Company's H shares on the Stock Exchange and ending on 30th June, 2004, the Company had adopted a code of conduct regarding securities transactions by directors on terms no less exacting than the required standard set out in the Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 of the Listing Rules (the "**Model Code**"), and that having made specific enquiry of all Directors, the Directors have confirmed that had any circumstance anticipated by the Model Code and was applicable to them occurred during the aforesaid period, they would have complied with the required standard set out in the Model Code.

APPROVAL OF INTERIM FINANCIAL STATEMENTS

The unaudited condensed interim financial statements for the Period were approved by the Board on 24th August, 2004.

PUBLICATION OF INTERIM RESULTS ON WEBSITE

The financial information required to be disclosed under paragraphs 46 (1) to 46 (6) of Appendix 16 of the Listing Rules will be published on the website of the Stock Exchange at www.hkex.com.hk in due course.

ACKNOWLEDGEMENT

I would like to thank the Board, the management and all our staff for their hard work and dedication, as well as our shareholders and customers for their continuous support.

By Order of the Board
Mr. Tan Xuguang
Chairman and CEO

Hong Kong, 24th August, 2004

The Directors of the Company as at the date of this announcement are as follows:

Four executive directors, namely Tan Xuguang (Chairman and CEO), Mr. Xu Xinyu, Mr. Sun Shaojun, Mr. Zhang Quan, Eight non-executive directors, namely Mr. Yeung Sai Hong, Mr. Chen Xuejian, Mr. Yao yu, Mr. Li San Yim, Mr. Tong Jingen, Ms. Zhang Fusheng, Mr. Julius G. Kiss, Mr. Feng Gang and two independent non-executive directors, namely Mr. Zhang Xiaoyu and Mr. Koo Fook Sun Louis.

Please also refer to the published version of this announcement in the ***(South China Morning Post)***