



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)

Announcement of 2004 Annual results

The board (the “Board”) of directors (the “Directors”) of Weichai Power Co., Ltd. (the “Company”) is pleased to announce the audited financial results of the Company for the year ended 31st December, 2004 (the “Period”).

FINANCIAL HIGHLIGHTS

Turnover	+73.1% to approximately RMB6,155.8 million
Operating profit	+64.1% to approximately RMB797.5 million
Net profit attributable to shareholders	+94.2% to approximately RMB538.9 million
Earnings per share	+35.7% to approximately RMB1.75 per share
Net cash and cash equivalents	approximately RMB1,774.2 million

- Proposed final dividend is RMB0.15 per share. With an interim dividend of RMB0.15 per share paid during the Period, the total dividend for the full year of 2004 amounts to RMB0.30 per share (2003 full year dividend: RMB0.20 per share), representing an increase of 50% when compared to that for the full year of 2003
- Successfully listed our H Shares on the Main Board of The Stock Exchange of Hong Kong Limited (the “Stock Exchange”) on 11th March, 2004. The net initial public offering (“IPO”) proceeds were approximately RMB1,226.9 million
- Recorded high turnover and operating profit growth due to the significant increase in production and sales volume
- 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 the 5 tonnes (and above) wheel-loaders sectors with our market share at approximately 78% and 75%, respectively
- Achieved outstanding performance by offering quality products despite the negative market sentiment arising from the macro-austerity measures implemented by the PRC central government
- Financial position significantly enhanced after the IPO

CHAIRMAN'S STATEMENT

Dear Shareholders:

The Company started a new chapter in its corporate history when its H-Shares were successfully listed on the Main Board of the Stock Exchange on 11th March, 2004. With strong support and recognition from investors in the international markets, the IPO was well received by international investors and the public investors in Hong Kong. The international placing was over-subscribed by approximately 52 times and the Hong Kong public offer also recorded an impressive subscription rate of approximately 928 times of the total number of shares under the public offer. The net proceeds from the IPO were approximately RMB1,226.9 million (including the funds raised as a result of the full exercise of the over-allotment option in connection with the IPO). Such net proceeds are being used to implement the future plans as stated in the prospectus of the Company dated 26th February, 2004. Over one year has elapsed since the IPO and investors' confidence in the Company's operating strategies and models as well as our industry prospects is reflected by the outstanding performance of our H-Share price.

REVIEW

The Company is principally engaged in the manufacture and sale of high-speed, heavy-duty WD615 and WD618 diesel engines and other related parts and products. The Company manufactures four series of WD615 diesel engines, namely vehicle engines (for heavy-duty vehicles and coaches), construction machine engines, vessel engines and power generator engines. We play a very active role in China in supplying diesel engines used in heavy-duty vehicles with a load capacity of 15 tonnes (and above) and wheel-loaders with a load capacity of 5 tonnes (and above), representing approximately 78% and 75% market share, respectively in 2004.

China maintained a very strong economic growth in 2004 despite the implementation of tightened macro-economic control policies on infrastructure investments by the PRC central government. In 2004, China's gross domestic product (GDP) grew by approximately 9.5% compared to 9.1% in 2003.

In 2004, the Company further consolidated and increased its market share in its core products. With the support of our advanced production technology, high production capacity and experienced staff, we were able to supply a diverse range of quality products to our customers at very competitive prices. For the Period, our operating results significantly improved and far exceeded our annual targets. In 2004, the Company recorded a turnover of approximately RMB6,155.8 million, representing a year-on-year growth of approximately 73.1%. Operating profit amounted to approximately RMB797.5 million, approximately 64.1% higher, as compared to that of the previous year. Net profit attributable to shareholders increased by approximately 94.2% year-on-year, to approximately RMB538.9 million and earnings per share reached approximately RMB1.75, representing an increase of approximately 35.7%. During the Period, all of the Company's core products, namely diesel engines for heavy-duty vehicles and diesel engines for construction machineries, delivered outstanding results with turnover increased by approximately 91.5% and 23.6% respectively.

At the end of 2004, the Company invented the Euro III WP10 and WP12 series of diesel engines with 10–12 litre displacement with up to 480 horsepower. The Company believes that the Euro III diesel engines can be manufactured by using the existing new production lines in 2005 if such

orders received by the Company. This indicates that the Company will, in advance, fulfil the requirements from the PRC central government with Euro III emission standards compliance for diesel engines used in heavy-duty trucks by 2008.

During the Period, the Company remained committed to enhancing corporate governance subsequent to its listing. Our management decision-making efficiency has also increased by the introduction and implementation of the enterprise resources planning (office management), production data management and financial management systems. Major efforts were made to integrate internal resources, improve sales and after sales service networks, standardize our business process and unify sales and marketing system. A unified performance appraisal system was introduced and the structure of human resources was optimized.

DIVIDENDS

In view of the Company's solid financial performance and sound balance sheet, and in order to share with our investors the fruits of China's fast economic growth as well as the Company's robust performance, the Board recommended the payment of a final dividend of RMB0.15 per share, subject to approval by shareholders at the annual general meeting to be held on 27th May, 2005 (the "Annual General Meeting"). Together with the interim dividend of RMB0.15 per share in 2004, the total dividend for the full year of 2004 is RMB0.30 per share (2003 full year dividend: RMB0.20 per share), representing a year-on-year growth of 50%.

PROSPECTS

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

We will further expand our production capacity and the range of high value-added products. To this end, the second new production line with an annual capacity of over 30,000 sets of diesel engines commenced commercial production in April 2005. We will also continue to improve our information system and employ high-calibre staff to further strengthen our senior management capability. From time to time, we will assess the market demand and, if necessary, implement appropriate expansion plans to further increase our production capacity. Our strategy is to leverage on our strong financial position and technical expertise as well as the experience of our strong management team, and through a combination of further development of and investment in our existing core business and, or establishment of strategic alliance and, or synergistic acquisitions, to bring further growth to our business and to deliver better return to our shareholders.

With reference to our announcement dated 28th September, 2004, the Company has entered into a framework agreement with 中國重型汽車集團有限公司 (China Heavy Duty Truck Group Co., Ltd) ("CHDTGL"), under which CHDTGL has agreed to permit the Company to conduct due diligence in relation to 杭州汽車發動機廠 (Hangzhou Motor Engine Factory) ("Hangqi") which is a wholly-owned subsidiary of CHDTGL. As at the date of this announcement, the said due diligence has been completed and the relevant valuation work on the assets of Hangqi is to commence. Due to the on-going restructuring of CHDTGL, the evaluation process has taken longer than we expected.

However, the Directors are still confident that the transaction can be completed before 31st December, 2005 if the terms can be agreed by CHDTGL and all relevant approvals required from the PRC government can be obtained and the restructuring of the CHDTGL group of companies can be completed without delay.

The Company will also focus on the research and development on new generation of diesel engines with Euro IV emission stands compliance based on newly invented Euro III WP10 and WP12 series of diesel engines. The Company expects that the above-mentioned research and development project will be commenced in the end of 2005 and can be completed by 2008.

APPRECIATION

We believe that the delivery of high quality products and after sales services is only possible with our diligent, dedicated, professional and experienced employees, and only by retaining these qualified employees can the Company achieve sound and rapid growth in face of the competitive landscape in the future. So I would like to pay tribute to our staff, to whom we will endeavor to provide attractive career development opportunities with a view to nurturing and building a loyal and incentivised workforce.

We are also privileged to have the service of our independent Directors and non-executive Directors, being representatives of our strategic partners, who bring with them a wealth of experience and for whose contributions to the Company during the past year I am deeply grateful.

Last but not least, may I express sincere appreciation to all shareholders for their support and pledge that every effort will be made to ensure that all of you will benefit as China's economic growth continues.

I would also like to thank my fellow Board members and the management for their hard work and dedication, as well as our customers for their continuous support.

INCOME STATEMENT

For the year ended 31st December, 2004

	<i>Notes</i>	2004 RMB'000	2003 RMB'000
Turnover	4	6,155,779	3,555,670
Cost of sales		<u>(4,651,073)</u>	<u>(2,695,351)</u>
Gross profit		1,504,706	860,319
Other operating income	4	64,937	31,250
Distribution expenses		(391,838)	(197,660)
Administrative expenses		(295,436)	(160,770)
Research and development expenses		(82,370)	(39,412)
Other operating expenses		<u>(2,476)</u>	<u>(7,809)</u>
Profit from operations	6	797,523	485,918
Finance costs	7	<u>(53,159)</u>	<u>(30,425)</u>
Profit before taxation		744,364	455,493

Income tax expense	8	<u>(205,484)</u>	<u>(178,025)</u>
Profit for the year		<u>538,880</u>	<u>277,468</u>
Dividends paid	9	<u>72,075</u>	<u>20,439</u>
Basic earnings per share	10	<u>RMB1.75</u>	<u>RMB1.29</u>

BALANCE SHEET

At 31st December, 2004

	<i>Notes</i>	2004 <i>RMB'000</i>	2003 <i>RMB'000</i>
NON-CURRENT ASSETS			
Property, plant and equipment		974,980	375,431
Intangible assets		264,449	217,780
Investment securities		20,000	—
Deposits paid for acquisition of property, plant and equipment		<u>358,155</u>	<u>110,783</u>
		<u>1,617,584</u>	<u>703,994</u>
CURRENT ASSETS			
Inventories		429,149	279,905
Trade debtors	11	487,624	230,302
Bills receivable		174,288	394,208
Deposits, prepayments and other debtors		96,998	33,702
Pledged bank deposits		334,445	391,578
Bank balances and cash		<u>1,774,220</u>	<u>338,219</u>
		<u>3,296,724</u>	<u>1,667,914</u>
CURRENT LIABILITIES			
Trade creditors	12	1,254,742	409,784
Bills payable		700,804	915,307
Other creditors and accruals		300,232	95,619
Amount due to a related party		90,525	45,427
Tax payable		189,058	105,327
Unsecured bank borrowings — due within one year	13	<u>20,000</u>	<u>31,720</u>
		<u>2,555,361</u>	<u>1,603,184</u>
NET CURRENT ASSETS		<u>741,363</u>	<u>64,730</u>

TOTAL ASSETS LESS CURRENT LIABILITIES	<u>2,358,947</u>	<u>768,724</u>
NON-CURRENT LIABILITIES		
Amount due to a related party	202,226	174,224
Unsecured bank borrowings — due after one year	<u>—</u>	<u>120,000</u>
	<u>202,226</u>	<u>294,224</u>
	<u>2,156,721</u>	<u>474,500</u>
OWNERS' EQUITY		
Share capital	330,000	215,000
Reserves	<u>1,826,721</u>	<u>259,500</u>
	<u>2,156,721</u>	<u>474,500</u>

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 principal activities of the Company are the manufacture and sale of diesel engines.

The H shares of the Company were listed on the Stock Exchange with effect from 11th March, 2004.

2. POTENTIAL IMPACT ARISING FROM THE RECENTLY ISSUED ACCOUNTING STANDARDS

In 2004, the Hong Kong Institute of Certified Public Accountants issued a number of new or revised Hong Kong Accounting Standards and Hong Kong Financial Reporting Standards ("HKFRSs") (the "new HKFRSs") which are effective for accounting periods beginning on or after 1st January, 2005. The Company has not early adopted these new HKFRSs in the financial statements for the year ended 31st December, 2004 as the Company's accounting periods beginning on 1st January, 2004.

The Company has commenced considering the potential impact of the new HKFRSs but is not yet in a position to determine whether these new HKFRSs would have a significant impact on how its results of operations and financial position are prepared and presented. The new HKFRSs may result in changes in the future as to how the results and financial position are prepared and presented.

3. SIGNIFICANT ACCOUNTING POLICIES

The financial statements have been prepared under the historical cost conversion.

The financial statements have been prepared in accordance with accounting principles generally accepted in Hong Kong.

4. TURNOVER AND OTHER OPERATING INCOME

	2004 RMB'000	2003 RMB'000
Turnover	<u>6,155,779</u>	<u>3,555,670</u>
Other operating income includes:		
Gain on sale of scrap and other materials	29,549	19,713
Amounts waived by trade creditors	2,085	3,931
Sales and warranty period repair services fee income	13,454	2,462

Bank interest income	18,592	2,343
Others	1,257	2,801
	<u>64,937</u>	<u>31,250</u>

5. BUSINESS AND GEOGRAPHICAL SEGMENTS

The Company was principally engaged in the business of manufacture and sale of 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.

6. PROFIT FROM OPERATIONS

	2004 RMB'000	2003 RMB'000
Profit from operations has been arrived at after charging:		
Depreciation and amortisation of property, plant and equipment	54,534	31,105
Amortisation of intangible assets	72,595	5,185
Auditors' remuneration	3,000	863
Allowance for bad and doubtful debts	17,244	11,566
Directors' and Supervisors' emoluments	5,438	1,964
Staff costs excluding Directors' and Supervisors' emoluments	241,373	132,512
Retirement benefits scheme contributions excluding amounts included in Directors' and Supervisors' emoluments	25,232	22,586
Loss on disposal of property, plant and equipment	1,266	6,775
Cost of inventories recognised as expense	<u>4,053,836</u>	<u>2,368,372</u>

7. FINANCE COSTS

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

8. INCOME TAX EXPENSE

	2004 RMB'000	2003 RMB'000
PRC income tax:		
Current year	269,371	178,025
Overprovision in prior year	(240)	—
Reinvestment tax credit	<u>(63,647)</u>	<u>—</u>
	<u>205,484</u>	<u>178,025</u>

PRC income tax is calculated at statutory income tax rate of 33% (2003: 33%) of the assessable profit except that the Chongqing branch of the Company is taxed at a preferential rate of 15% (2003: 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 ("Reinvestment Tax Benefit"), which is calculated as 40% of the current year's additions of PRC produced equipment for production use. The Reinvestment Tax benefit is, however, limited to the

amount of increase in PRC income tax for the current year in which the equipment are acquired as compared with the tax amount of the preceding year. The portion of the Reinvestment Tax Benefit that is not utilised can be carried forward for further application for a period of not more than five years from the year in which the equipment are acquired.

The tax charge for the year can be reconciled to the profit per the income statement as follows:

	2004 RMB'000	2003 <i>RMB'000</i>
Profit before taxation	<u>744,364</u>	<u>455,493</u>
Tax at PRC income tax rate of 33% (2003: 33%)	245,640	150,313
Tax effect of expenses not deductible for PRC income tax	39,700	27,712
Effect of tax benefits granted to the Chongqing branch	(15,969)	—
Overprovision in prior year	(240)	—
Reinvestment tax credit	<u>(63,647)</u>	<u>—</u>
	<u>205,484</u>	<u>178,025</u>

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

9. DIVIDENDS PAID

	2004 RMB'000	2003 <i>RMB'000</i>
Final, paid — 2003: RMB0.105 (2002: Nil) per share	22,575	—
Interim, paid — 2004: RMB0.15 (2003: RMB0.095) per share	<u>49,500</u>	<u>20,439</u>
	<u>72,075</u>	<u>20,439</u>

A final dividend of RMB0.15 per share for the Period (2003: RMB0.105 per share which was declared on 18th February, 2004) has been proposed by the Directors and is subject to approval by the shareholders in the Annual General Meeting.

10. BASIC EARNINGS PER SHARE

The calculation of basic earnings per share is based on the net profit attributable to shareholders for the Period of approximately RMB538,880,000 (2003: RMB277,468,000) and on the weighted average number of approximately 308,005,000 (2003: 215,000,000) ordinary shares in issue during the Period.

11. 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:

	2004 RMB'000	2003 <i>RMB'000</i>
Third party customers	300,481	198,583
Related party customers	<u>187,143</u>	<u>31,719</u>
	<u>487,624</u>	<u>230,302</u>

An ageing analysis is as follows:

Within 90 days	466,544	200,323
Between 91 to 180 days	5,320	17,936
Between 181 to 365 days	4,146	5,975

Over 365 days	<u>11,614</u>	<u>6,068</u>
	<u>487,624</u>	<u>230,302</u>

12. TRADE CREDITORS

An analysis of trade creditors is as follows:

	2004 RMB'000	2003 RMB'000
Third party suppliers	1,212,276	382,858
Related party suppliers	<u>42,466</u>	<u>26,926</u>
	<u>1,254,742</u>	<u>409,784</u>

An ageing analysis is as follows:

Within 90 days	1,216,911	339,144
Between 91 to 180 days	23,677	56,972
Between 181 to 365 days	8,081	8,272
Over 365 days	<u>6,073</u>	<u>5,396</u>
	<u>1,254,742</u>	<u>409,784</u>

13. UNSECURED BANK BORROWINGS

	2004 RMB'000	2003 RMB'000
Unsecured bank borrowings	<u>20,000</u>	<u>151,720</u>
The maturity profile of the above bank borrowings is as follows:		
On demand or within one year	20,000	31,720
More than one year, but not exceeding two years	<u>—</u>	<u>120,000</u>
	20,000	151,720
Less: Amounts due within one year shown under current liabilities	<u>(20,000)</u>	<u>(31,720)</u>
	<u>—</u>	<u>120,000</u>

MANAGEMENT DISCUSSION AND ANALYSIS OF RESULTS OF OPERATIONS AND FINANCIAL POSITION

Industry Review

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, sales of heavy-duty vehicles have been rising very rapidly in recent 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 vehicles with a load capacity of 15 tonnes (and above) in the PRC is concentrated in

a few manufacturers, which are the major customers of the Company such as: 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”), Baotou North-Benz Heavy-duty Truck Co., Ltd. (“North-Benz”), etc. Although during the Period, the PRC central government implemented a series of austerity measures, the sales of heavy-duty vehicles with a load capacity of 8 tonnes (and above) was not much affected. In the PRC, the total sales of heavy-duty vehicles with a load capacity of 8 tonnes (and above) during the Period rose by 45% as compared with that of the same period of 2003. Major truck manufacturers engaged in manufacturing heavy-duty vehicles with a load capacity of 15 tonnes (and above) also recorded very impressive growth rates at the range of approximately 80% to 150%.

It is estimated that approximately 80% of the medium to heavy-duty vehicles in the PRC are frequently overloaded in previous years. Lower toll charges for smaller trucks are the main cause for overloading. The PRC central government is cracking down hard on the widespread practice of truck overloading. Furthermore, toll charges for heavy-duty vehicles with a load capacity of 15 tonnes (and above) was reduced by approximately 30%. All these have stimulated the demand for heavy-duty vehicles with a load capacity of 15 tonnes (and above) and also accelerated 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 vehicles 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 second-most important market, is also showing strong growth during the Period.

In recent years, the wheel loader market grew by over 29% year-on-year. During the Period, the implementation of a series of austerity measures with credit-tightening policies by the PRC central government adversely affected 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 few manufacturers which are the major customers of the Company, such as: Guangxi Liugong Machinery Co., Ltd. (“Guangxi Liugong”), Shanghai Longgong Machinery Company Limited (“Shanghai Longgong”), Fujian Longyan Construction (Group) Company Limited (“Fujian Longyan”), Shandong Lingong Construction Machinery Co., Ltd. (“Shandong Lingong”), etc.

Business Review

The Company is one of China’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 of diesel engines in 2000, which have a higher power output of 265–323kW. At the end of 2004, the Company invented the Euro III

diesel engines with 10–12 litre displacement and higher horsepower up to 480 horsepower. The Euro III diesel engines will be required by China government to be adopted in all heavy-duty vehicles by 2008. The Company believes that the Euro III diesel engines can be manufactured by using the new production lines installed during the Period if such orders received by the Company in 2005.

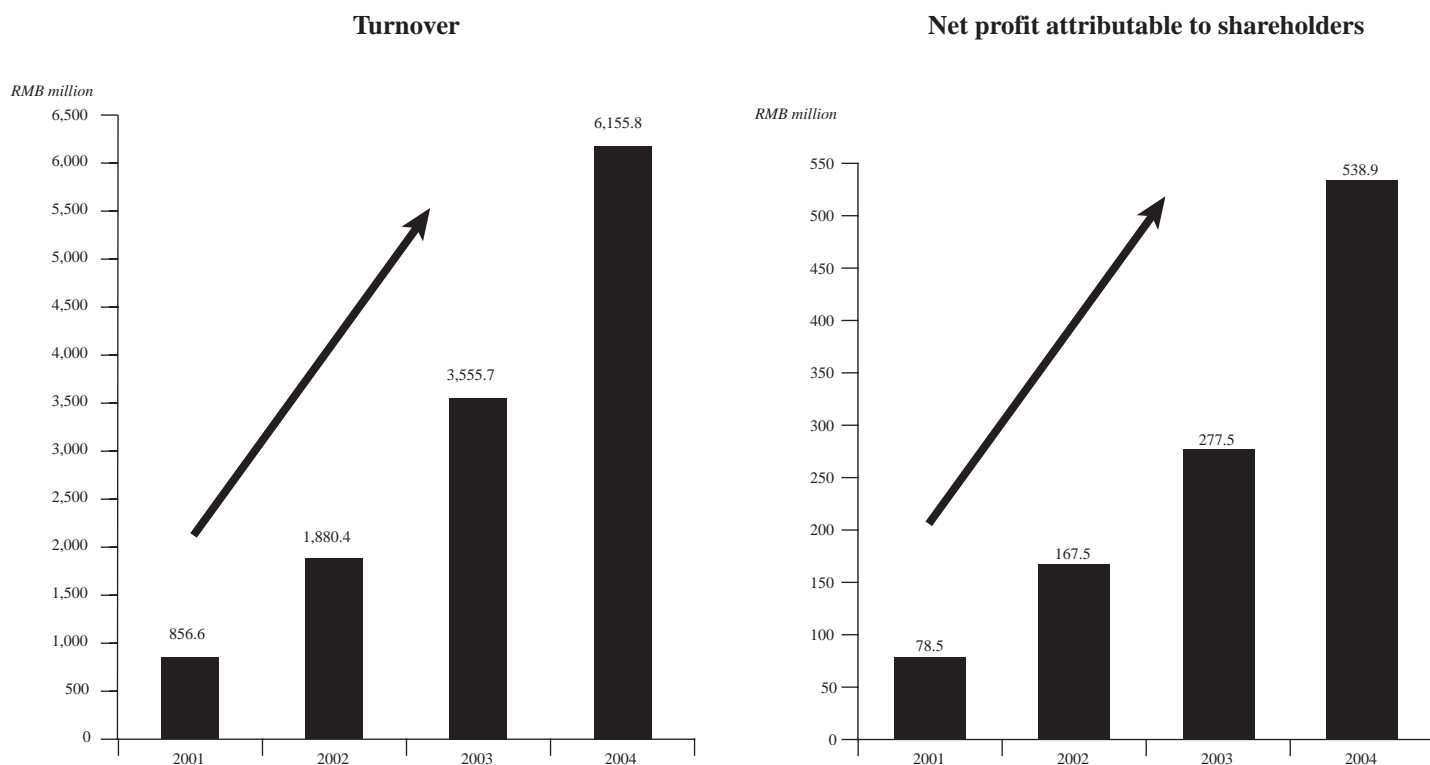
Over the past decade, emission and noise control regulations have become increasingly stringent, and against this background, the technologies for diesel engines in this respect have also been greatly improved.

China has implemented Euro II emission standards since September 2004. Demand for heavy-duty diesel 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 increases in investment in heavy infrastructure in the PRC. The Directors believe that the development of environmental-friendly investment in heavy-duty diesel engines will be a major trend of the PRC's diesel engine industry.

The Company has a very stable customer base which includes certain well-known market leaders in their industries including: CHDTGL, Shaanxi Motor, Guangxi Liugong, Shanghai Longgong, Shandong Lingong, North-Benz, Chongqing Hongyan, etc. During the Period, sales to our top five customers accounted for approximately 62.2% of our total turnover and top ten customers represented approximately 76.0% of our total turnover.

Financial Review

During the Period, the Company recorded 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 enabled us to adopt a more flexible pricing strategy.

Sales of WD615 and WD618 series engines

Turnover of the Company for the Period amounted to approximately RMB6,155.8 million, representing an increase of approximately RMB2,600.1 million or approximately 73.1% over the same period in 2003. Turnover was derived mainly from the sales of diesel engines used in heavy-duty trucks and construction machines, which accounted for approximately 60.7% and 27.7% 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 attributable to shareholders for the Period increased to approximately RMB538.9 million, representing a approximately 94.2% increase as compared to that for the same period in 2003.

Sales of engine parts

In addition to the production and sale of engines, the Company also engages in the production and sales of engine parts. During the Period, the Company recorded an approximately 413.4% increase in sales of engine parts from approximately RMB100.0 million in 2003 to approximately RMB513.5 million. The surge was mainly attributable to the increase in sale volume of diesel engines from approximately 80,480 units in 2003 to approximately 134,460 units in 2004 as a result of the continuing strong growth in heavy-duty vehicles and construction machines markets in the PRC. The sales of diesel engine parts represented approximately 8.3% (2003: 2.8%) of the Company's turnover during the Period.

Gross profit and gross profit margin

During the Period, the Company's gross profit increased by approximately 74.9% to RMB1,504.7 million (2003: RMB860.3 million) as a result of increase in the sales volume from approximately 80,480 units in 2003 to approximately 134,460 units of diesel engines in 2004 and the gross profit margin of the Company remained relatively the same as of previous year.

Finance costs

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

The Company maintained very low level of bank borrowings. Total bank loans decreased from approximately RMB151.7 million in 2003 to only RMB20 million in 2004 due to sufficient cash being generated from the operating business during the Period. The increase in finance costs was mainly due to the fact that certain bills receivables were discounted to banks and this led to the increase in finance costs from approximately RMB30.4 million in 2003 to approximately RMB53.2 million for the Period.

Taxation

PRC income tax for the Company was calculated at statutory income tax rate of 33% (2003: 33%) of the assessable profit except that the Company's Chongqing branch is taxed at a preferential rate of 15% (2003: 15%) pursuant to the relevant laws and regulations in the PRC. The tax charges during the Period were approximately RMB205.5 million in aggregate, representing an effective tax rate of approximately 27.6% (2003: 39.1%). The difference in the effective tax rate of 27.6% compared to the statutory rate of 33% was due to the fact that the Company was granted a tax credit of approximately RMB63.6 million relating to its acquisition of certain PRC made machinery and equipment. The amount of tax credit is calculated as 40% of the current year's additions of PRC made machinery and equipment for production use.

According to the Notice of the Ministry of Finance and the State Administration of Taxation concerning certain preferential policies on enterprise income tax (財政部、國家稅務總局《關於企業所得稅若干優惠政策的通知》) and the Notice of the State Administration of Taxation concerning the proper implementation of the continuing administrative work after the cancellation and delegation of the examination and approval procedure for enterprise income tax (國家稅務總局《關於做好已取消和下放管理的企業所得稅審批項目後續管理工作的通知》), as the Company is a high technology enterprise and its new production facilities and registered address are situated in the industrial park administered by the State (the "State Industrial Park"), and the production at the State Industrial Park has already commenced in April 2005, the Company is now entitled to enjoy preferential enterprise income tax treatment at a reduced tax rate of 15% in respect of the taxable profit generated from the new production facilities at the State Industrial Park starting from the tax assessable year of 2005 without the need to obtain any prior approval from PRC authorities (as compared to the 33% taxation rate charged on the Company's taxable profit made at its existing production facilities at its previous registered address). For details, please refer to the announcement of the Company dated 17th March, 2005.

Net profit margin

The net profit margin increased substantially from approximately 7.8% in 2003 to approximately 8.8% 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

The Company had a very solid financial position and maintained a strong and steady cash inflow from its operating activities. As at 31st December, 2004, the net cash and cash equivalents of the Company amounted to approximately RMB1,774.2 million, representing an increase of approximately 424.6% from approximately RMB338.2 million as at 31st December, 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 of the Company dated 26th February, 2004.

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 RMB538.9 million (2003: RMB277.5 million) and on the weighted averaged number of approximately 308,005,000 (2003: 215,000,000) shares in issue

during the Period. The basic earnings per share for the Period was approximately RMB1.75, which represented an increase of approximately 35.7% 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 approximately 94.2% compared to that of the same period in 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 31st December, 2004, the Company had debts of approximately RMB20 million and the gearing ratio was only a mere approximately 0.4% (2003: 6.4%) (total debt/total asset).

Segment information

The Company is principally engaged in the manufacture and sale of WD615 and WD618 diesel engines and its related parts. As substantially all of the Company's turnover and operating results during the Period were derived from the PRC, no analysis of business and geographical segment is prepared for the Period.

Pledge of assets

As at 31st December, 2004, bank deposits and bills receivables of approximately RMB334.4 million (2003: RMB391.6 million) and RMB119.9 million (2003: RMB77.1 million) were pledged to secure banking facilities granted to the Company respectively.

Foreign exchange risk exposure

As almost all of the operations of the Company are located in the PRC. Its operating expenses as well as most of capital expenditure of the Company were denominated in RMB for the Period. Therefore, 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 currency to meet its foreign exchange requirements.

Contingent liabilities

The Company had no material contingent liabilities as at 31st December, 2004.

Capital commitments

As at 31st December, 2004, the Company had approximately RMB423.6 million (2003: RMB322.7 million) capital commitments, principally for the capital expenditure in respect of purchase of property, machinery and equipment.

Capital expenditure

During the Period, the Company's capital expenditure of property, plant and equipment and intangible assets amounted to approximately RMB774.9 million. This was mainly attributable to the installation of new production lines, modification of existing production lines, research and development of Euro III diesel engines and acquisition of intangible assets related to trademarks.

Human resources practice

As at 31st December, 2004, the Company had a total of over 5,200 employees. As the Company believes people are the cornerstone of its success, the Company has long been concerned with its employees' development by organizing various training courses to broaden their horizon. During the Period, some of senior management of the Company attended training courses organised by reputational domestic and overseas universities such as 北京清華大學 (Peking Tsinghua University) and National University of Singapore (新加坡國立大學). Employees 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 other senior management staff each year.

REGISTER OF MEMBERS

The Register of Members of the Company will be closed from 27th April, 2005 to 27th May, 2005 (both days inclusive) during which no transfer of shares will be registered. In order to qualify for attendance and voting at the Annual General Meeting, all documents on transfer of H Shares of the Company, accompanied by the relevant share certificates, must be lodged with the Company's Hong Kong H-Share Registrar and Transfer Office, Computershare Hong Kong Investor Services Limited at 46/F., Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong, not later than 4:00 p.m. on 26th April, 2005.

ARRANGEMENT TO PURCHASE SHARES OR DEBENTURES

At no time during the Period was the Company a party to any arrangements to enable the Directors of the Company to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate.

PURCHASE, SALE OR REDEMPTION OF SECURITIES

Other than pursuant to the IPO, there was no purchase, sale or redemption of any of the Company's securities by the Company during the Period.

AUDIT COMMITTEE

The audit committee of the Company (the "Audit Committee") is composed of its all Independent non-executive Directors, namely Mr. Koo Fook Sun, Louis (Chairman), Mr. Zhang Xiaoyu and Mr. Fang Zhong Chang. The principal duties of the Audit Committee are to review, together with management and the Company's internal and external auditors, the internal and external findings, the accounting principles and practices adopted by the Company and auditing, internal control, risk management and financial reporting matters. The international auditors of the Company, Messrs. Deloitte Touche Tohmatsu have audited the financial statements for the Period and have issued an unqualified auditors' report. In accordance with the requirements of paragraph 39 of Appendix 16 of the Listing Rules, the Audit Committee has reviewed the financial statements for the Period prior to recommending them to the Board for approval.

COMPLIANCE WITH THE CODE OF BEST PRACTICE AND MODEL CODE

None of the Directors is aware of any information which would reasonably indicate that the Company is not, or was not for any part of the period commencing on the date of the listing of the Company's H Shares on the Stock Exchange and ending on 31st December, 2004, in compliance with the Code of the Best Practice as set out in Appendix 14 of the Listing Rules.

From the date of the listing of the Company's H Shares on the Stock Exchange and ending on 31st December, 2004, the Company had adopted a code of conduct regarding securities transactions by directors on terms no less exacting than the required standard set out in the Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 of the Listing Rules (the "**Model Code**"), and that having made specific enquiry of all Directors, the Directors have confirmed that had any circumstance anticipated by the Model Code and was applicable to them occurred during the Period, they would have complied with the required standard set out in the Model Code.

AUDITORS

A resolution will be submitted to the Annual General Meeting to re-appoint Messrs. Deloitte Touche Tohmatsu as auditors of the Company.

APPROVAL OF THE FINANCIAL STATEMENTS

The audited financial statements for the Period were approved by the Board on 6th April, 2005.

PUBLICATION OF THE 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.

On behalf of the Board
Tan Xuguang
Chairman

Hong Kong, 6th April, 2005

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

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

NOTICE OF ANNUAL GENERAL MEETING

NOTICE IS HEREBY GIVEN that the annual general meeting (the “**Annual General Meeting**”) of Weichai Power Co., Ltd. (the “**Company**”) for the year ended 31st December, 2004 will be held at the Company’s conference room at 26 Minsheng East Street, Weifang, Shandong Province, the People’s Republic of China (the “**PRC**”) on 27th May, 2005 at 10:00 a.m. for the purposes of considering, approving (or receiving) and authorising the following matters:

AS ORDINARY RESOLUTIONS:

1. To consider and approve the Report of the Board of Directors of the Company for the year ended 31st December, 2004.
2. To consider and approve the Report of the Supervisory Committee of the Company for the year ended 31st December, 2004.
3. To consider and receive the audited financial statements of the Company and the Auditors’ Report for the year ended 31st December, 2004.
4. To consider and approve the re-appointment of 山東正源和信有限責任會計師事務所 (Shandong Zheng Yuan Hexin Accountants Limited) as the PRC auditors of the Company and to authorize Directors to determine their remuneration (and, for the purpose of this resolution, “PRC” means the People’s Republic of China, but excluding Hong Kong).
5. To consider and approve the re-appointment of Messrs. Deloitte Touche Tohmatsu as the non-PRC auditors of the Company and to authorize Directors to determine their remuneration (and, for the purpose of this resolution, “PRC” means the People’s Republic of China, but excluding Hong Kong).
6. To consider and approve the profit distribution of the Company for the year ended 31st December, 2004 (including the payment of final dividend).
7. To consider and approve the re-appointment of 張小虞 (Zhang Xiaoyu) as an independent non-executive Director of the Company with effect as from the close of this Annual General Meeting up to the earlier of (i) the conclusion of the next annual general meeting of the Company (“Next AGM”); and (ii) the conclusion of the extraordinary general meeting (if any) of the Company convened prior to the Next AGM and at which 張小虞 (Zhang Xiaoyu) is re-appointed as an independent non-executive Director of the Company for a term beyond the conclusion of the Next AGM, and determine his remuneration.
8. To consider and approve the re-appointment of 顧福身 (Koo Fook Sun, Louis) as an independent non-executive Director of the Company with effect as from the close of this Annual General Meeting up to the earlier of (i) the conclusion of the next annual general meeting of the Company (“Next AGM”) and (ii) the conclusion of the extraordinary general meeting (if any) of the Company convened prior to the Next AGM and at which 顧福身 (Koo Fook Sun, Louis) is re-appointed as an independent non-executive Director of the Company for a term beyond the conclusion of the Next AGM, and determine his remuneration.
9. To consider and approve the re-appointment of 房忠昌 (Fang Zhong Chang) as an independent non-executive Director of the Company with effect as from the close of this Annual General Meeting up to the earlier of (i) the conclusion of the next annual general meeting of the Company (“Next AGM”) and (ii) the conclusion of the extraordinary general meeting (if any)

of the Company convened prior to the Next AGM and at which 房忠昌 (Fang Zhong Chang) is re-appointed as an independent non-executive Director of the Company for a term beyond the conclusion of the Next AGM, and determine his remuneration.

10. To consider and approve the granting of a mandate to the Board of Directors for payment of interim dividend (if any) to the shareholders of the Company for the year ending 31st December, 2005.

AS SPECIAL RESOLUTIONS:

11. As special business and as a standing resolution to pass the following resolution as a special resolution:

“THAT any proposal to appoint any person to the office of Director 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; and the period for lodgement of such notices shall commence on (and include) the day after the date of despatch of the notice convening the relevant general meeting of the Company appointed to consider such proposal and end on (and exclude) the date that is seven (7) days before the date of the said general meeting.”

12. As special business, to consider and, if thought fit, pass the following resolution relating to the granting of a general mandate to the Board of Directors to issue, amongst other things, new shares as a special resolution:

“THAT:

- (1) The Directors be and is hereby authorized to make such amendments to the Articles of Association of the Company as it thinks fit so as to increase the registered capital of the Company and reflect the new capital structure of the Company upon the allotment and issuance of shares of the Company as contemplated in paragraph (2) of this special resolution.
- (2) The Board of Directors be and is hereby granted, during the Relevant Period, an unconditional general mandate to separately or concurrently issue, allot and deal with additional domestic shares and/or overseas listed foreign shares of the Company, and to make or grant offers, agreements and options in respect thereof, subject to the following conditions:
 - (i) such mandate shall not extend beyond the Relevant Period save that the Board of Directors may during the Relevant Period make or grant offers, agreements or options which may require the exercise of such powers after the end of the Relevant Period; and
 - (ii) the aggregate nominal amount of the domestic shares or overseas listed foreign shares allotted and issued or agreed conditionally or unconditionally to be allotted and issued (whether pursuant to an option or otherwise) by the Board of Directors otherwise than pursuant to a Rights Issue or any option scheme or similar arrangement, shall not exceed 20% of the aggregate nominal amount of the domestic shares and overseas listed foreign shares, respectively, of the Company in issue as at the date of this special resolution; and the Board of Directors will only exercise its power under such mandate in accordance with the Company Law of the People's Republic of China (“PRC”) and the Rules Governing the Listing of

Securities on The Stock Exchange of Hong Kong Limited (as amended from time to time) and only if all necessary approvals from the China Securities Regulatory Commission and/or other relevant PRC government authorities are obtained.

(3) For the purposes of this special resolution:

“Relevant Period” means the Period from the passing of this special resolution until the earliest of: (i) the conclusion of the next annual general meeting of the Company following the passing of this special resolution; or (ii) the expiration of the 12-month period following the passing of this special resolution; or (iii) the date on which the authority sets out in this special resolution is revoked or varied by a special resolution of the shareholders of the Company in a general meeting; and

“Rights Issue” means the allotment or issue of shares in the Company or other securities which would or might require shares to be allotted and issued pursuant to an offer made to all the shareholders of the Company (excluding for such purpose any shareholder who is resident in a place where such offer is not permitted under the law or regulation of that place) and, where appropriate, the holder of other equity securities of the Company entitled to such offer, pro rata (apart from fractional entitlements) to their existing holdings of shares or such other equity securities.

(4) Contingent on the Board of Directors resolving to issue shares pursuant to paragraph (2) of this special resolution, the Board of Directors be and is hereby authorized to approve, execute and do or procure to be executed and done, all such documents, deeds, and things as it may consider necessary in connection with the issue of such new shares (including, without limitation, determining the time and place of issue, making all necessary applications to the relevant authorities, entering into underwriting agreements (or any other agreements), determining the use of proceeds and making all necessary filings and registrations with the relevant PRC, Hong Kong and other relevant authorities, including but not limited to registering the increased registered capital of the Company with the relevant authorities in the PRC as a result of the issuance of shares pursuant to paragraph (2) of this special resolution”.

By Order of the Board of Directors
Zhang Yuanfu
Company Secretary
Weichai Power Co., Ltd.

Hong Kong, 6th April, 2005

Notes:

- (A) The Company will not process registration of transfers of H Shares of the Company from 27th April, 2005 to 27th May, 2005 (both days inclusive). Holders of H Shares of the Company whose names appear on the register of H Shares of the Company kept at Computershare Hong Kong Investor Services Limited at the close of business on 26th April, 2005 are entitled to attend and vote at the Annual General Meeting following completion of the registration procedures.

To qualify for attendance and voting at the Annual General Meeting, documents on transfers of H Shares of the Company, accompanied by the relevant share certificates, must be lodged with the Company's H-Share Registrar and Transfer Office, not later than 4:00 p.m. on 26th April, 2005. The address of the Company's H-Share Registrar and Transfer Office is as follows:

Computershare Hong Kong Investor Services Limited
46/F., Hopewell Centre
183 Queen's Road East
Wanchai
Hong Kong

- (B) Holders of H Shares, domestic shares and foreign shares of the Company intending to attend the Annual General Meeting should complete and return the reply slip for attending the Annual General Meeting personally, by facsimile or by post to the Secretary to the Board of the Company 20 days before the Annual General Meeting, namely, on or before 7th May, 2005.

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

Securities Department
197, Section A, Fu Shou East Street
High Technology Industrial Development Zone
Weifang
Shandong Province
The People's Republic of China
Postal Code: 261061
Telephone No.: 86 (536) 229 7068
Facsimile No.: 86 (536) 819 7073

- (C) Each holder of H Shares of the Company entitled to attend and vote at the Annual General Meeting may, by completing the form of proxy of the Company, appoint one or more proxies to attend and vote at the Annual 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 of the Company 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 authorised by the relevant shareholder in writing (a "power of attorney"). If the forms of proxy is signed by the person authorised by the relevant shareholder as aforesaid, the relevant power of attorney and other relevant documents of authorization (if any) must be notarised. If a corporate shareholder appoints a person other than its legal representative to attend the Annual 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 authorised 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 and Transfer Office, 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 Annual General Meeting.

- (F) Each holder of domestic shares or foreign shares (excluding H Shares) of the Company who is entitled to attend and vote at the Annual General Meeting may also, by completing the form of proxy of the Company, appoint one or more proxies to attend and vote at the Annual 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) of the Company, 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 Annual 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 Annual General Meeting. If a corporate shareholder's legal representative or any other person authorised by the board of directors or other governing body of such corporate shareholder attends the Annual 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 authorisation 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 Annual General Meeting shall be given in writing and, notice in written 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, 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 the Annual General Meeting and end on (and exclude) the date that is seven (7) days before the date of the Annual General Meeting.
- (I) The Annual General Meeting is expected to last for half a day. Shareholders who attend the Annual General Meeting shall bear their own travelling and accommodation expenses.

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