



WEICHAI

潍柴动力股份有限公司
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, 2005
(UNAUDITED)

The board of directors (the “Board”) of Weichai Power Co., Ltd. (the “Company”) is pleased to announce the unaudited interim results of the Company for the six months ended 30th June, 2005 (the “Reporting Period”). The interim results have been reviewed by the Company’s international auditors, Deloitte Touche Tohmatsu, (the Certified Public Accountants in Hong Kong):

Turnover	+15.2% to approximately RMB3,228.3 million
Operating profit	+6.8% to approximately RMB408.6 million
Net profit attributable to shareholders	approximately RMB250.2 million
Earnings per share — Basic	approximately RMB0.76 per share
Net cash and cash equivalents	approximately RMB941.6 million

- Turnover grew by approximately 15.2% as a result of the increase in market share and sales of diesel engines. Proposed interim dividend is RMB0.165 per share, representing an increase of 10% when compared to the same period in 2004
- Gross profit grew by approximately 21.1% due to the increase in gross profit margin to approximately 23.2% from 22.0% for the same period in 2004
- Net profit attributable to shareholders grew slightly by approximately 3.0% which was attributable to improvement in operational efficiency
- 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 80% and 78%, respectively
- Positive business prospects, strong market position as well as sound earnings and strong cash position

CHAIRMAN'S STATEMENT

Dear shareholders:

On behalf of the Board, I am pleased to present the unaudited interim results of the Company for the Reporting Period.

REVIEW OF OPERATING RESULTS

During the Reporting Period, the central government of the PRC continued to implement a series of macro-tightening measures which slowed down the investment in infrastructures in the PRC. With effect from 1st April, 2005, the central government has implemented a new policy of Vehicles' Maximum Measurement On Size, Weight and Loading Capacity 《道路車輛外廓尺寸，軸荷及質量限值》，which required all truck manufacturers to redesign their trucks so as to meet certain design standards with specific length, height and chassis structure standards. As a result of which, the nationwide crackdown on truck overloading has been easing off since the second quarter of 2005. The implementation of the above-mentioned measures had certain negative impacts on the heavy-duty trucks and construction machineries industries, which in turn substantially slowed down the increase in sales of the Company of diesel engines which were used in these industries as compared to the previous year. Nevertheless, during the Reporting Period, we still played a very active role in the PRC in supplying diesel engines used in heavy-duty trucks with a load capacity of 15 tonnes (and above) and wheel loaders with a load capacity of 5 tonnes (and above), representing approximately 80% (2004: 75%) and 78% (2004: 73%) market share, respectively for the Reporting Period. The Company recorded a turnover of approximately RMB3,228.3 million, representing a growth of approximately 15.2% compared to the same period in 2004. The net profit attributable to shareholders increased slightly by approximately 3.0% to approximately RMB250.2 million and earnings per share reached approximately RMB0.76 per share. During the Reporting Period, the sales volume of diesel engines was approximately 68,646 units as compared to 64,130 units for the same period in 2004, representing a growth of approximately 7.0%.

DIVIDENDS

Since its listing in March, 2004, the Company has maintained a relatively stable dividend policy. The Board was authorised by the shareholders of the Company to approve the distribution of an interim dividend for 2005 at the annual general meeting of the Company which was held on 27th May, 2005. The Board has resolved to pay an interim dividend of RMB0.165 per share (2004: RMB0.15 per share) to reward the continuing support and confidence of our shareholders towards the Company. The dividend will be paid on 30th September, 2005.

ACQUISITIONS

Hangzhou Motor Engines Factory (杭州汽車發動機廠) (“Hangqi”)

As stated in the announcement of the Company 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”). As at the date of this

announcement, the relevant valuation work on the assets of Hangqi is still in progress. Due to the on-going restructuring of CHDTGL, the valuation process has taken longer time than the Directors expected. However, the Directors of the Company 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 can be completed without delay.

Torch Automobile Group Co., Ltd (湘火炬汽車集團股份有限公司) (“Torch Auto”)

On 11th August, 2005, 濰柴動力(濰坊)投資有限公司, a PRC joint venture company in which the Company holds 45% of its registered capital, signed a share transfer agreement and a loan transfer agreement with, inter alia, 中國華融資產管理公司 (China HuaRong Asset Management Corp.) for the acquisition of an approximately 28.12% interest in Torch Auto, a company listed on The Shenzhen Stock Exchange in the PRC, for a total consideration of approximately RMB1,023.4 million. The transaction is expected to be completed before 31st December, 2005 if all relevant approvals required from the PRC government can be obtained.

PROSPECTS

Looking ahead, although the diesel engines market in China is expected to remain competitive and challenging, the Directors are still optimistic about the future of our Company and believe that the industry is 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 5 tonnes (and above) wheel-loaders markets, the Company will also seek to further explore opportunity for acquiring related business, further broaden our customers base and consolidate our business.

Torch Auto is principally engaged in the manufacturing of the heavy-duty trucks and its related key auto parts such as: gearbox and spark plug, etc. The Company will explore potential business opportunities and synergies with Torch Auto in the near future. As such, it is expected that the investment in Torch Auto will contribute positively to the future development of the Company.

The Company will also focus on the research and development of new generation of diesel engines which comply with Euro IV emission standard based on the newly invented Euro III WP10 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 hopefully will be completed by 2008.

APPRECIATION

We believe that the delivery of high quality products is only possible with our diligent, dedicated 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 for their loyalty and workforce. I would also like to thank my fellow Board members and other senior management for their hard work and dedication, as well as our customers for their continuous support.

**CONDENSED INCOME STATEMENT
FOR THE SIX MONTHS ENDED 30TH JUNE, 2005**

		Six months ended	
		30.6.2005	30.6.2004
		RMB'000	RMB'000
			<i>(restated)</i>
	<i>NOTES</i>	<i>(unaudited)</i>	<i>(unaudited)</i>
Turnover		3,228,268	2,801,788
Cost of sales		<u>(2,480,661)</u>	<u>(2,184,581)</u>
Gross profit		747,607	617,207
Other operating income		30,594	36,606
Distribution expenses		(175,474)	(131,905)
Administrative expenses		(148,648)	(122,025)
Research and development expenses		(45,376)	(16,624)
Other operating expenses		<u>(107)</u>	<u>(670)</u>
Profit from operations	4	408,596	382,589
Finance costs		<u>(15,438)</u>	<u>(31,296)</u>
Profit before taxation		393,158	351,293
Income tax expense	5	<u>(142,935)</u>	<u>(108,320)</u>
Profit for the period		<u>250,223</u>	<u>242,973</u>
Dividend paid	6	<u>49,500</u>	<u>22,575</u>
Basic earnings per share	7	<u>RMB0.76</u>	<u>RMB0.85</u>

**CONDENSED BALANCE SHEET
AT 30TH JUNE, 2005**

		30.6.2005 RMB'000 (unaudited)	31.12.2004 RMB'000 <i>(restated)</i> (audited)
	<i>NOTES</i>		
NON-CURRENT ASSETS			
Property, plant and equipment	8	1,533,336	911,933
Intangible assets	9	225,560	264,449
Investment securities		—	20,000
Available-for-sale investments		20,000	—
Prepaid lease payments — non-current portion		61,130	61,769
Deposits paid for acquisition of property, plant and equipment	14	95,831	358,155
		1,935,857	1,616,306
CURRENT ASSETS			
Inventories		768,088	429,149
Trade debtors	10	650,030	487,624
Bills receivable	13	140,313	174,288
Deposits, prepayments and other debtors		105,452	96,998
Prepaid lease payments — current portion		1,278	1,278
Pledged bank deposits	13	242,096	334,445
Bank balances and cash		941,616	1,774,220
		2,848,873	3,298,002
CURRENT LIABILITIES			
Trade creditors	11	1,030,375	1,254,742
Bills payable		553,866	700,804
Other creditors and accruals		349,682	300,232
Amount due to a related party		62,368	90,525
Tax payable		227,232	189,058
Unsecured short-term bank loan		20,000	20,000
		2,243,523	2,555,361
NET CURRENT ASSETS		605,350	742,641
TOTAL ASSETS LESS CURRENT LIABILITIES		2,541,207	2,358,947
NON-CURRENT LIABILITY			
Amount due to a related party		153,156	202,226
		2,388,051	2,156,721
OWNERS' EQUITY			
Share capital	12	330,000	330,000
Reserves		2,058,051	1,826,721
		2,388,051	2,156,721

CONDENSED STATEMENT OF CHANGES IN EQUITY FOR THE SIX MONTHS ENDED 30TH JUNE, 2005

	Share capital RMB'000	Share premium RMB'000	Shareholder's contribution RMB'000	Statutory surplus reserve RMB'000	Statutory welfare reserve RMB'000	Accumulated profits RMB'000	Total RMB'000
At 1st January, 2004	215,000	—	—	27,641	13,820	218,039	474,500
Conversion of certain state- owned domestic shares to H shares	(11,500)	—	—	—	—	—	(11,500)
Issue of H shares (including those converted from domestic shares)	126,500	1,166,797	—	—	—	—	1,293,297
Expenses incurred in connection with the issue of shares	—	(60,755)	—	—	—	—	(60,755)
Profit for the period	—	—	—	—	—	242,973	242,973
Final dividend paid	—	—	—	—	—	(22,575)	(22,575)
Transfer	—	—	—	24,757	12,379	(37,136)	—
At 30th June, 2004	330,000	1,106,042	—	52,398	26,199	401,301	1,915,940
Profit for the period	—	—	—	—	—	290,281	290,281
Interim dividend paid	—	—	—	—	—	(49,500)	(49,500)
Transfer	—	—	—	28,930	14,464	(43,394)	—
At 31st December, 2004	<u>330,000</u>	<u>1,106,042</u>	<u>—</u>	<u>81,328</u>	<u>40,663</u>	<u>598,688</u>	<u>2,156,721</u>
At 1st January, 2005	330,000	1,106,042	—	81,328	40,663	598,688	2,156,721
Effects of changes in accounting policies	—	—	30,607	—	—	—	30,607
As restated	330,000	1,106,042	30,607	81,328	40,663	598,688	2,187,328
Profit for the period	—	—	—	—	—	250,223	250,223
Final dividend paid	—	—	—	—	—	(49,500)	(49,500)
Transfer	—	—	—	25,624	12,813	(38,437)	—
At 30th June, 2005	<u>330,000</u>	<u>1,106,042</u>	<u>30,607</u>	<u>106,952</u>	<u>53,476</u>	<u>760,974</u>	<u>2,388,051</u>

As stipulated by the relevant regulations of the People's Republic of China (the "PRC"), the aggregate allocations to the statutory surplus reserve and statutory welfare reserve are 10% and 5% respectively of the Company's profit after tax under the relevant accounting principles and financial regulations applicable to companies established in the PRC (the "PRC GAAP").

According to the provision of the Company's Articles of Association, the statutory surplus reserve shall only be used for making up losses, capitalisation into share capital and expansion of the Company's production and operation. The statutory welfare fund is used for the collective welfare of the Company's staff and workers.

According to the Company's Articles of Association, distribution of profit by the Company is determined with reference to the profit as reported under the PRC GAAP or the accounting policies generally accepted in Hong Kong, whichever is less.

At 30th June, 2005, the distributable reserves of the Company was RMB760,974,000 (31.12.2004: RMB598,688,000 as restated).

**CONDENSED CASH FLOW STATEMENT
FOR THE SIX MONTHS ENDED 30TH JUNE, 2005**

	Six months ended	
	30.6.2005	30.6.2004
	RMB'000	RMB'000
	(unaudited)	(unaudited)
Net cash (used in) from operating activities	(404,026)	752,503
Net cash used in investing activities	(317,020)	(658,106)
Net cash (used in) from financing activities		
Other financing cash flows	(62,058)	(159,094)
Dividend paid	(49,500)	(22,575)
Proceeds on issue of shares	—	1,293,297
	<u>(111,558)</u>	<u>1,111,628</u>
Net (decrease) increase in cash and cash equivalents	(832,604)	1,206,025
Cash and cash equivalents at 1st January	<u>1,774,220</u>	<u>338,219</u>
Cash and cash equivalents at 30th June, represented by bank balances and cash	<u><u>941,616</u></u>	<u><u>1,544,244</u></u>

NOTES TO THE CONDENSED FINANCIAL STATEMENTS FOR THE SIX MONTHS ENDED 30TH JUNE, 2005

1. BASIS OF PREPARATION

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 of Hong Kong Limited (the “Stock Exchange”) and the Hong Kong Accounting Standard 34 “Interim Financial Reporting”.

2. PRINCIPAL ACCOUNTING POLICIES

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

The accounting policies used in the condensed financial statements are consistent with those followed in the preparation of the Company’s annual financial statements for the year ended 31st December, 2004 except as described below.

In the current period, the Company has applied, for the first time, a number of new Hong Kong Financial Reporting Standards (HKFRSs), Hong Kong Accounting Standards (HKASs) and Interpretations (hereinafter collectively referred to as “new HKFRSs”) issued by the Hong Kong Institute of Certified Public Accountants that are effective for accounting periods beginning on or after 1st January, 2005. The adoption of the new HKFRSs has resulted in changes to the Company’s accounting policies in the following areas that have an effect on how the results for the current or prior accounting periods are prepared and presented.

Financial Instruments

In the current period, the Company has applied HKAS 32 “Financial Instruments: Disclosure and Presentation” and HKAS 39 “Financial Instruments: Recognition and Measurement”. HKAS 32 requires retrospective application. HKAS 39, which is effective for annual periods beginning on or after 1st January, 2005, generally does not permit to recognise, derecognise or measure financial assets and liabilities on a retrospective basis. The principal effects resulting from the implementation of HKAS 32 and HKAS 39 are summarised below:

Classification and measurement of financial assets and financial liabilities

The Company has applied the relevant transitional provisions in HKAS 39 with respect to classification and measurement of financial assets and financial liabilities that are within the scope of HKAS 39.

On or before 31st December, 2004, the Company classified and measured its debt and equity securities in accordance with the benchmark treatment of Statement of Standard Accounting Practice 24 (“SSAP 24”). Under SSAP 24, investments in debt or equity securities are classified as “investment securities”, “other investments” or “held-to-maturity investments” as appropriate. “Investment securities” are carried at cost less impairment losses (if any) while “other investments” are measured at fair value, with unrealised gains or losses included in the profit or loss. Held-to-maturity investments are carried at amortised cost less impairment losses (if any). From 1st January, 2005 onwards, the Company classifies and measures its debt and equity securities in accordance with HKAS 39. Under HKAS 39, financial assets are classified as “financial assets at fair value through profit or loss”, “available-for-sale financial assets”, “loans and receivables”, or “held-to-maturity financial assets”. The classification depends on the purpose for which the assets are acquired. “Financial assets at fair value through profit or loss” and “available-for-sale financial assets” are carried at fair value, with changes in fair values recognised in profit or loss and equity respectively except for equity instruments that do not have a quoted market price in an active market and its fair value cannot be reliably

measured. Such equity instruments are carried at cost less impairment. “Loans and receivables” and “held-to-maturity financial assets” are measured at amortised cost using the effective interest method.

On 1st January, 2005, the Company classified and measured its debt and equity securities in accordance with the requirements of HKAS 39. Investment securities of RMB20,000,000 which are unlisted equity securities whose fair value cannot be measured reliably were reclassified as available-for-sale investments and are stated at cost less impairment losses.

Financial assets and financial liabilities other than debt and equity securities

From 1st January, 2005 onwards, the Company classifies and measures its financial assets and financial liabilities other than debt and equity securities (which were previously outside the scope of SSAP 24) in accordance with the requirements of HKAS 39. As mentioned above, financial assets under HKAS 39 are classified as “financial assets at fair value through profit or loss”, “available-for-sale financial assets”, “loans and receivables” or “held-to-maturity financial assets”. Financial liabilities are generally classified as “financial liabilities at fair value through profit or loss” or “financial liabilities other than financial liabilities at fair value through profit or loss (other financial liabilities)”. “Other financial liabilities” are carried at amortised cost using the effective interest method. On applying HKAS 39, the Company calculated the implied interest of an interest free amount due to a related party and an adjustment of approximately RMB30,607,000 has been made to reduce the amount due to a related party. The corresponding adjustment has been made to increase equity because it represents a contribution from shareholder (see note (b) for financial impact).

Cost of equity transactions

Under HKAS 32, the Company records transaction costs of an equity transaction as a deduction from equity. The transaction costs of an equity transaction are accounted for as a deduction from equity to the extent they are incremental costs directly attributable to the equity transaction that otherwise would have been avoided. Transaction costs that relate jointly to more than one transaction (for example, costs of a concurrent offering of some shares and a stock exchange listing of other shares) are allocated to those transactions using a basis of allocation that is rational and consistent with similar transactions.

On applying HKAS 32, an adjustment of approximately RMB5,626,000 relating to listing expenses has been reversed from share premium and included in the net profit for the period ended 30th June, 2004 (see note (b) for financial impact).

Owner-occupied leasehold interest in land

In previous periods, owner-occupied leasehold land and buildings were included in property, plant and equipment and measured using the cost model. In the current period, the Company has applied HKAS 17 “Leases”. Under HKAS 17, the land and buildings elements of a lease of land and buildings are considered separately for the purposes of lease classification, unless the lease payments cannot be allocated reliably between the land and buildings elements, in which case, the entire lease is generally treated as a finance lease. To the extent that the allocation of the lease payments between the land and buildings elements can be made reliably, the leasehold interests in land are reclassified to prepaid lease payments under operating leases, which are carried at cost and amortised over the lease term on a straight-line basis. This change in accounting policy has been applied retrospectively (see note (b) for financial impact). Alternatively, where the allocation between the land and buildings elements cannot be made reliably, the leasehold interests in land continue to be accounted for as property, plant and equipment.

- (a) The effects of the adoption of new HKFRSs described above on the results for the current and prior period are as follows:

	Six months ended	
	30.6.2005	30.6.2004
	RMB'000	RMB'000
Increase in administrative expenses:		
Listing expenses	—	(5,626)
Increase in finance costs:		
Interest on amount due to a related party	<u>(6,068)</u>	<u>—</u>
Decrease in profit for the period	<u>(6,068)</u>	<u>(5,626)</u>

- (b) The cumulative effects of the application of the new HKFRSs as at 31st December, 2004 and 1st January, 2005 are summarised below:

	As at 31.12.2004 (originally stated)	Effect of HKAS 17	Effect of HKAS 32	As at 31.12.2004 (restated)	Effect of HKAS 32 and HKAS 39	As at 1.1.2005 (restated)
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Balance sheet items						
Property, plant and equipment	974,980	(63,047)	—	911,933	—	911,933
Investment securities	20,000	—	—	20,000	(20,000)	—
Available-for-sale investments	—	—	—	—	20,000	20,000
Prepaid lease payments — non-current portion	—	61,769	—	61,769	—	61,769
Prepaid lease payments — current portion	—	1,278	—	1,278	—	1,278
Amount due to a related party — due within one year	(90,525)	—	—	(90,525)	11,099	(79,426)
Amount due to a related party — due after one year	<u>(202,226)</u>	<u>—</u>	<u>—</u>	<u>(202,226)</u>	<u>19,508</u>	<u>(182,718)</u>
Total effects on assets and liabilities	<u>702,229</u>	<u>—</u>	<u>—</u>	<u>702,229</u>	<u>30,607</u>	<u>732,836</u>
Share premium	1,100,416	—	5,626	1,106,042	—	1,106,042
Shareholder's contribution	—	—	—	—	30,607	30,607
Accumulated profits	<u>604,314</u>	<u>—</u>	<u>(5,626)</u>	<u>598,688</u>	<u>—</u>	<u>598,688</u>
Total effects on equity	<u>1,704,730</u>	<u>—</u>	<u>—</u>	<u>1,704,730</u>	<u>30,607</u>	<u>1,735,337</u>

3. SEGMENT INFORMATION

The Company was solely 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 People's Republic of China (the "PRC") and accordingly, no analysis of business and geographical segment is presented.

4. PROFIT FROM OPERATIONS

Six months ended	
30.6.2005	30.6.2004
<i>RMB'000</i>	<i>RMB'000</i>
	<i>(restated)</i>
<i>(unaudited)</i>	<i>(unaudited)</i>

Profit from operations has been arrived at after charging:

Depreciation and amortisation of property, plant and equipment	44,399	23,553
Amortisation of intangible assets	38,889	33,705
Amortisation of prepaid lease payments	639	140

and after crediting:

Bank interest income	<u>5,699</u>	<u>7,021</u>
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5. INCOME TAX EXPENSE

Six months ended	
30.6.2005	30.6.2004
<i>RMB'000</i>	<i>RMB'000</i>
<i>(unaudited)</i>	<i>(unaudited)</i>

PRC Enterprise Income Tax	142,935	137,706
Tax credit	<u>—</u>	<u>(29,386)</u>
	<u>142,935</u>	<u>108,320</u>

PRC Enterprise Income Tax is calculated at the statutory income tax rate of 33% (six months ended 30th June, 2004: 33%) of the assessable profit. During the current period, the assessable profit that is derived from the production in the high technology development zone is taxed at a preferential rate of 15% pursuant 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》).

The Company's Chongqing branch is subject to PRC Enterprise Income Tax at a preferential rate of 15% (six months ended 30th June, 2004: 15%).

The Company's Hong Kong branch is subject to Hong Kong Profits Tax at 17.5% (six months ended 30th June, 2004: 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 29th February, 2004 issued by Weifang Municipal Tax Bureau, the Company is entitled to a total tax credit of approximately RMB29,386,000 in respect of eligible additions of domestic machinery and equipment for production use.

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

6. DIVIDEND

In June 2005, a dividend of RMB0.15 per share (six months ended 30th June, 2004: RMB0.105) amounting to RMB49,500,000 (six months ended 30th June, 2004: RMB22,575,000) was paid to shareholders as the final dividend for 2004.

The Directors have determined that an interim dividend of RMB0.165 (six months ended 30th June, 2004: RMB0.15) per share should be paid to the shareholders of the Company whose names appear in the Register of Members on 16th September, 2005.

7. BASIC EARNINGS PER SHARE

The calculation of basic earnings per share is based on the net profit for the period of approximately RMB250,223,000 (six months ended 30th June, 2004: RMB242,973,000 as restated) and on the weighted average number of 330,000,000 (six months ended 30th June, 2004: 285,769,231) ordinary shares in issue during the period.

The adjustment to comparative basic earnings per share, arising from adoption of new HKFRSs shown in note 2 to the interim financial statement of 2005, is as follows:

	<i>RMB</i>
Reconciliation of 2004 basic earnings per share	
Reported figure before adjustment	0.87
Adjustment arising from the adoption of HKAS 32	<u>(0.02)</u>
Restated	<u><u>0.85</u></u>

8. ADDITIONS TO PROPERTY, PLANT AND EQUIPMENT

During the period, the Company spent approximately RMB666,223,000 (six months ended 30th June, 2004: RMB303,418,000) on property, plant and equipment.

9. ADDITIONS TO INTANGIBLE ASSETS

During the period ended 30th June, 2004, the Company acquired certain trademarks of approximately RMB119,264,000 from China Heavy Duty Truck Group. China Heavy Duty Truck Group Co. Ltd. ("CHDTGL") is a substantial shareholder of the Company. CHDTGL and its affiliates other than the Company are collectively referred as China Heavy Duty Truck Group.

10. 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:

	30.6.2005 RMB'000 (unaudited)	31.12.2004 RMB'000 (audited)
Third party customers	552,595	300,481
Related party customers	<u>97,435</u>	<u>187,143</u>
	<u>650,030</u>	<u>487,624</u>

An ageing analysis is as follows:

Within 90 days	519,365	466,544
Between 91 to 180 days	122,002	5,320
Between 181 to 365 days	238	4,146
Over 365 days	<u>8,425</u>	<u>11,614</u>
	<u>650,030</u>	<u>487,624</u>

The related party customers represented China Heavy Duty Truck Group, 福建龍岩工程機械(集團)有限公司 (“Fujian Longgong”) and its affiliates and 廣西柳工集團有限公司 (“Guangxi Liugong”) and its affiliates. Fujian Longgong and Guangxi Liugong are promoters of the Company and held 6.52% and 1.36% interest in the Company at 30th June, 2005, respectively.

11. TRADE CREDITORS

An analysis of trade creditors is as follows:

	30.6.2005 RMB'000 (unaudited)	31.12.2004 RMB'000 (audited)
Third party suppliers	867,139	1,212,276
Related party suppliers	<u>163,236</u>	<u>42,466</u>
	<u>1,030,375</u>	<u>1,254,742</u>

An ageing analysis is as follows:

Within 90 days	974,737	1,216,911
Between 91 to 180 days	7,419	23,677
Between 181 to 365 days	41,942	8,081
Over 365 days	<u>6,277</u>	<u>6,073</u>
	<u>1,030,375</u>	<u>1,254,742</u>

Related party suppliers represented China Heavy Duty Truck Group.

12. SHARE CAPITAL

	Number of shares Domestic shares '000	H shares '000	Registered, issued and fully paid RMB'000
At 1st January, 2004	215,000	—	215,000
Conversion of certain state-owned domestic shares to H shares (<i>Note</i>)	(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 31st December, 2004 and 30th June, 2005	<u>203,500</u>	<u>126,500</u>	<u>330,000</u>

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, 2005, bank deposits and bills receivables of approximately RMB242,096,000 (31.12.2004: RMB334,445,000) and RMB55,720,000 (31.12.2004: RMB119,876,000) respectively were pledged to secure bills payable issued by banks for the Company.

14. CAPITAL COMMITMENTS

	30.6.2005 RMB'000 (<i>unaudited</i>)	31.12.2004 RMB'000 (<i>audited</i>)
Capital expenditure in respect of the acquisition of property, plant and equipment contracted for but not provided in the financial statements	<u>128,733</u>	<u>423,631</u>
Capital expenditure in respect of the acquisition of property, plant and equipment authorised but not contracted for	<u>340,180</u>	<u>340,180</u>

As at 30th June, 2005, included in the deposits paid for acquisition of property, plant and equipment was a refundable deposit of RMB80,000,000 (31st December, 2004: RMB80,000,000) paid to CHDTGL in relation to a framework agreement dated 27th September, 2004 for the Company to acquire certain assets of Hangzhou Motor Engine Factory, a wholly-owned subsidiary of CHDTGL. The final amount of the consideration for the acquisition, if the transaction is contemplated, is yet to be determined.

15. OTHER COMMITMENTS

In conjunction with 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 Euro6.6 million (equivalent to approximately RMB68,741,000).

As at 30th June, 2005, the outstanding commitment amounted to approximately Euro1,260,000, equivalent to approximately RMB12,551,000 (31.12.2004: Euro1,445,000, equivalent to approximately RMB15,242,000).

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:

	30.6.2005 RMB'000 (unaudited)	31.12.2004 RMB'000 (audited)
Within one year	49,605	48,620
In the second to fifth year inclusive	95,551	118,508
	<u>145,156</u>	<u>167,128</u>

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.

17. POST BALANCE SHEET EVENT

濰柴動力(濰坊)投資有限公司(“濰柴投資”) is an equity joint venture company established in the PRC on 2nd August, 2005 with a registered capital of RMB1,638 million, of which the Company holds 45% interest in it. The registered capital of 濰柴投資 was fully paid up on 5th August, 2005.

On 11th August, 2005, 濰柴投資 entered into an agreement with independent vendors for the acquisition of an approximately 28.12% interest in 湘火炬汽車集團股份有限公司 (Torch Automobile Group Co., Ltd. (“Torch Automobile”), a company listed on The Shenzhen Stock Exchange in the PRC), at a consideration of approximately RMB622 million. On the same date, 濰柴投資 also enter into another agreement for the purchase of certain loans receivables from Torch Automobile at a consideration of approximately RMB401 million.

MANAGEMENT DISCUSSION AND ANALYSIS

Industry Review

Heavy-duty trucks industry

The development of road system, especially highway system, and the strong GDP growth of 9.5% in the Reporting Period in the PRC have stimulated the sales of trucks, especially heavy-duty trucks in China. A sizable proportion of the unit sales of heavy-duty trucks with a load capacity of 15 tones (and above) in China is concentrated in few manufacturers, which are the major customers of the Company, such as: 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. During the Reporting Period, the PRC central government implemented a series of austerity measures to cool down the investment in infrastructures. With effect from 1st April, 2005, the central government has implemented a new policy of Vehicles’ Maximum Measurement On Size, Weight and Loading Capacity 《道路車輛外廓尺寸，軸荷及質量限值》，which required all truck manufacturers to redesign their trucks so as to meet certain design standards with specific length, height and chassis structure standards. As a result of which, the nationwide

crackdown on truck overloading has been easing off since the second quarter of 2005. The implementation of the above-mentioned measures had certain negative impacts on the heavy-duty trucks, which in turn substantially slowed down the increase in sales of the Company of diesel engines which were used in the said industry as compared to the previous year. In China, during the Reporting Period, the total sales of heavy-duty trucks decreased by approximately 4.9% as compared with the same period in 2004.

Construction machineries — Wheel loaders industry

During the Reporting Period, the sale of the wheel loaders with a load capacity of 5 tones (and above), being the second-most important market of the Company, slowed down as a result of the implementation of series of austerity measures with credit-tightening policies by the PRC central government. 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 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 six-cylinder, 110–266kw output, 9.7 litre displacement WD615 diesel engines and WD618 diesel engines with output of 265–323kw. During the Reporting Period, the Company started a trial production of its newly invented Euro III diesel engines, with 10–12 liter displacement and higher horsepower up to 480 horsepower, on a market testing basis by using the new production lines.

The Company still has a very stable customers base which includes certain well-known market leaders in their industries including: CHDTGL, Shaanxi Motor, Guangxi Liugong, Shanghai Longgong, Shandong Lingong, North-Benz and Chongqing Hongyan, etc. During Reporting Period, sales to our top five and top ten customers accounted for approximately 50.1% and 67.6% of our total turnover respectively.

Sales of WD615 and WD618 series engines

During the Reporting Period, the Company’s turnover increased by approximately 15.2% from RMB2,801.8 million in 2004 to approximately RMB3,228.3 million in 2005. The turnover was derived mainly from the sale of diesel engines used in heavy-duty trucks and construction machines, which in total accounted for approximately 84.9% and also represented approximately 56.3% and 28.6% of the total turnover, respectively. The growth in sales was mainly the result of a growing demand in the heavy-duty truck industries for the Company’s products due to the strong economic growth in the PRC. During the Reporting Period, the Company sold approximately 68,646 units of diesel engines in 2005, compared to 64,130 units in 2004,

representing an increase of approximately 7.0%, while the average unit selling price of the Company remained stable. Of these diesel engines sold in the Reporting Period, approximately 40,123 units (2004: 33,853 units) are trucks engines, representing an increase of approximately 18.5% when compared to that for the same period in 2004.

Sales of diesel engine parts

Apart from the production and sales of whole set of diesel engine, the Company also engages in the production and sales of engine parts. The production and sales of engine parts not only contributed to the sales revenue of the Company, but also ensured the generation of revenue from the provision of after-sales service on the parts. During the Reporting Period, the Company recorded an approximately 74.0% increase in sales of engine parts from RMB203.0 million in 2004 to approximately RMB353.3 million in 2005. The surge was mainly attributable to the increase in sales volume of diesel engines. The sales of diesel engine parts represented approximately 10.9% (2004: 7.3%) of the Company's turnover during the Reporting Period.

Financial Review

Gross profit and gross profit margin

During the Reporting Period, the Company's gross profit increased by approximately 21.1% to approximately RMB747.6 million (2004: RMB617.2 million) as a result of increase in the sales volume from 64,130 units in 2004 to approximately 68,646 units of diesel engines in 2005. The Company's gross profit margin slightly increased from 22.0% in 2004 to approximately 23.2% in 2005. The increase in gross profit margin was mainly due to the increase in sale of heavy-duty trucks diesel engines which have relatively higher gross profit margin than that of construction machineries' diesel engines in 2005.

Distribution expenses

During the Reporting Period, the Company's distribution expenses increased from RMB131.9 million in 2004 to approximately RMB175.5 million in 2005. As a percentage of turnover, distribution expenses increased from 4.7% in 2004 to approximately 5.4% in 2005, which was mainly due to the increase in repair and maintenance expense resulting from the substantial increase in the number of after-sales service centers from 756 at 30th June, 2004 to approximately 1,281 at 30th June, 2005.

Net profit margin

The Company's net profit margin decreased from 8.7% in 2004 to approximately 7.8% in 2005. The decrease was mainly due to the increase in expenses which were not tax deductible for PRC income tax purpose and the fact that no income tax credit was granted for the Reporting Period.

Liquidity and Financial Position

As at 30th June, 2005, the cash and cash equivalent of the Company amounted to approximately RMB941.6 million, representing a decrease of approximately 46.9% from RMB1,774.2 million as at 31st December, 2004. Such decrease was primarily due to the increase in capital expenditure of approximately RMB666.2 million on property, plants and equipments for updating the production capacity for the Reporting Period.

Earnings Per Share — Basic

The calculation of basic earnings per share is based on the net profit for the period of approximately RMB250,223,000 (six months ended 30th June, 2004: RMB242,973,000 as restated) and on the weighted average number of 330,000,000 (six months ended 30th June, 2004: 285,769,231) ordinary shares in issue during the Reporting Period.

The adjustment to comparative earnings per share, arising from adoption of new HKFRSs shown in note 2 to the interim financial statement of 2005, is as follows:

RMB

Reconciliation of 2004 basic earnings per share

Reported figure before adjustment	0.87
Adjustment arising from the adoption of HKAS 32	<u>(0.02)</u>
Restated	<u><u>0.85</u></u>

The earnings per share for the Reporting Period was approximately RMB0.76 (2004: RMB0.85) per share. The decrease in earnings per share was mainly due to the increase in the weighted number of shares in 2005 as compared to the same period in 2004, when the Company commenced the trading of its H Shares on the Stock Exchange on 11th March, 2004.

The effects of the adoption of new HKFRSs on the results for the Reporting Period and prior period are as follows:

	Six months ended	
	30.6.2005	30.6.2004
	RMB'000	RMB'000
Net profit after tax before taken up the effects	256,291	248,599
Increase in administrative expenses:		
Listing expenses	—	(5,626)
Increase in finance costs:		
Interest on amount due to a related party	<u>(6,068)</u>	<u>—</u>
Net profit for the period	<u>250,223</u>	<u>242,973</u>

Capital structure and capital expenditure

During the Reporting 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, 2005, the Company had debts of RMB20 million and its gearing ratio (total debt/total asset) was only a mere of 0.42% (2004: 0.41%).

During the Reporting Period, the capital expenditure of approximately RMB666.2 million (2004:303.4 million) was spent on the purchase of property, plant and equipment for upgrading the production capacity to approximately 200,000 units of diesel engines per annum in 2005.

Subsequent Event After Balance Sheet Date

濰柴動力(濰坊)投資有限公司 (“濰柴投資”) is an equity joint venture company established in the PRC on 2nd August, 2005 with a registered capital of RMB1,638 million, of which the Company holds 45% interest in it. The registered capital of 濰柴投資 was fully paid up on 5th August, 2005.

On 11th August, 2005, 濰柴投資 entered into an agreement with independent vendors for the acquisition of an approximately 28.12% interest in 湘火炬汽車集團股份有限公司 Torch Automobile Group Co., Ltd., a company listed on The Shenzhen Stock Exchange in the PRC, at a consideration of approximately RMB622 million. On the same date, 濰柴投資 also enter into another agreement for the purchase of certain loans receivables from Torch Automobile at a consideration of approximately RMB401 million.

For any further detailed information, please refer to the announcement of the Company dated 11th August, 2005.

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 Reporting 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 Reporting 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, 2005.

Human resources practice

As at 30th June, 2005, the Company had a total of over 5,400 employees. 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 senior management staff each year.

CLOSURE OF REGISTER OF MEMBERS

The Register of Members of the Company will be closed from 11th September, 2005 to 16th September, 2005 (both days inclusive) during which no transfer of shares will be registered. In order to qualify for the interim dividend, 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 9th September, 2005. The interim dividend will be paid on 30th September, 2005. to those shareholders on the register of members on 16th September, 2005.

ARRANGEMENT TO PURCHASE SHARES OR DEBENTURES

At no time during the Reporting 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

There was no purchase, sale or redemption of any of the Company's securities by the Company during the Reporting Period.

PRE-EMPTIVE RIGHTS

There are no provision for pre-emptive rights under the Company's Articles of Association, or the laws of the PRC, which would oblige the Company to offer new shares on a pro-rata basis to existing shareholders.

AUDIT COMMITTEE

The audit committee of the Company (the "Audit Committee") is established pursuant to the requirements of rule 3.21 of the Listing Rules and is composed all of its independent non-executive Directors, namely Mr. Koo Fook Sun, Louis (Chairman), Mr. Zhang Xiaoyu and Mr. Fang Zhong Chang. The principal duties of the Audit Committee are to review, together with management and the Company's internal and external auditors, the internal and external findings, the accounting principles and practices adopted by the Company and auditing, internal control, risk management and financial reporting matters. The international auditors of the Company, Messrs. Deloitte Touche Tohmatsu have reviewed the financial statements for the Reporting Period and have issued an independent review report. In accordance with the requirements of paragraph 39 of Appendix 16 of the Listing Rules, the Audit Committee has reviewed together with management the accounting principles and practices adopted by the Company and discussed auditing, internal control and financial report matters including the review of the unaudited interim financial statement for the Reporting Period.

COMPLIANCE WITH CODE ON CORPORATE GOVERNANCE PRACTICES IN APPENDIX 14 OF THE LISTING RULES

The Board is pleased to confirm that the Company has complied with the Code on Corporate Governance Practices in Appendix 14 of the Listing Rules for the Reporting Period. None of the Directors is aware of any information that would reasonably indicate that the Company is not or was not for any time of the period under review in compliance with the Code on Corporate Governance Practices in Appendix 14 of the Listing Rules.

COMPLIANCE WITH THE MODEL CODE

During the Reporting Period, 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 Reporting Period (but after Listing), they would have complied with the required standard set out in the Model Code.

APPROVAL OF THE FINANCIAL STATEMENTS

The unaudited financial statements for the Reporting Period were approved by the Board on 26th August, 2005.

PUBLICATION OF INTERIM RESULTS ON WEBSITE

The 2005 Interim Report will be despatched to Shareholders and 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.

By Order of the Board
Mr. Tan Xuguang
Chairman

Hong Kong, 26th August, 2005

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

Four executive Directors, namely Mr. Tan Xuguang (Chairman), 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 three independent non-executive Directors, namely Mr. Zhang Xiaoyu, Mr. Fang Zhong Chang and Mr. Koo Fook Sun Louis.

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