



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

1. BASIS OF PREPARATION

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

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

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

2. PRINCIPAL ACCOUNTING POLICIES

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

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

3. SEGMENT INFORMATION

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

4. PROFIT FROM OPERATIONS

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





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

5. FINANCE COSTS

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

6. INCOME TAX EXPENSE

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

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

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

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

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

7. DIVIDEND

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

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





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

8. BASIC EARNINGS PER SHARE

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

9. ADDITIONS TO PROPERTY, PLANT AND EQUIPMENT

During the period, the Company spent approximately RMB303,418,000 (six months ended 30th June, 2003: RMB147,027,000) on property, plant and equipment.

10. ADDITIONS TO INTANGIBLE ASSETS

During the period, the Company acquired certain trademarks of approximately RMB119,264,000 from Weifang Diesel Engine Works ("Weichai Factory"). Weichai Factory held 23.53% interest in the Company at 30th June, 2004.

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:

	30.6.2004 <i>RMB'000</i> <i>(unaudited)</i>	31.12.2003 <i>RMB'000</i> <i>(audited)</i>
Third party customers	286,013	198,583
Related party customers	136,898	31,719
	422,911	230,302
An ageing analysis is as follows:		
Within 90 days	390,830	200,323
Between 91 to 180 days	11,082	17,936
Between 181 to 365 days	10,768	5,975
Over 365 days	10,231	6,068
	422,911	230,302





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

12. TRADE CREDITORS

An analysis of trade creditors is as follows:

	30.6.2004 RMB'000 (unaudited)	31.12.2003 RMB'000 (audited)
Third party suppliers	657,716	382,858
Related party suppliers	158,808	26,926
	816,524	409,784
An ageing analysis is as follows:		
Within 90 days	803,103	339,144
Between 91 to 180 days	4,401	56,972
Between 181 to 365 days	3,287	8,272
Over 365 days	5,733	5,396
	816,524	409,784

13. OTHER CREDITORS AND ACCRUALS

Included in other creditors and accruals was an amount of approximately RMB121,477,000 (31.12.2003: Nil) payable to The National Society Security Fund Council ("NSSFC"). The amount represents the net proceeds from the sale of H shares previously converted from domestic shares by the Company on behalf of NSSFC.

14. BANK BORROWINGS

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





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

15. SHARE CAPITAL

	Number of shares		Registered, issued and fully paid RMB'000
	Domestic shares '000	H shares '000	
At 1st January, 2003 and 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 30th June, 2004	203,500	126,500	330,000

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

16. PLEDGE OF ASSETS

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

17. CAPITAL COMMITMENTS

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





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

18. OTHER COMMITMENTS

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

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

19. OPERATING LEASE COMMITMENTS

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

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

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





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

20. RELATED PARTIES AND CONNECTED PERSONS DISCLOSURE

- (a) During the period, the Company had the following significant transactions with related parties and connected persons:

Related parties and connected persons	Notes	Six months ended	
		30.6.2004 RMB'000 (unaudited)	30.6.2003 RMB'000 (unaudited)
China Heavy Duty Truck Group:			
Sales of goods	(iii)	777,537	375,829
Sales of semi-finished diesel engine parts	(iv)	60,638	54,324
Purchases of materials other than semi-finished diesel engine parts	(iii)	61,989	318,401
Purchases of semi-finished diesel engine parts	(iv)	—	169,731
General services fee paid	(v)	10,287	3,213
Utility services fee paid	(vi)	54,173	11,554
Processing services fee	(vii)	44,871	—
Sales and warranty period repair services fee income	(viii)	6,146	—
Purchases of property, plant and equipment	(ix)	—	65,021
Disposal of property, plant and equipment	(iv)	—	3,027
Purchase of trademarks	(x)	119,264	—
Trademarks fee paid	(xi)	5,184	7,778
Technologies fee paid	(xii)	—	31,111
Rental paid for certain land and buildings, machinery and equipment	(xiii)	23,109	—
Fujian Longgong Group (i):			
Sales of goods	(iii)	175,137	136,431
Guangxi Liugong Group (ii):			
Sales of goods	(iii)	199,993	124,170

Notes:

- (i) 福建龍岩工程機械(集團)有限公司 (“Fujian Longgong”) was a 6.52% shareholder of the Company at 30th June, 2004. Fujian Longgong together with its affiliates are collectively referred as the “Fujian Longgong Group”.
- (ii) 廣西柳工集團有限公司 (“Guangxi Liugong”) held 1.36% interest in the Company at 30th June, 2004. Guangxi Liugong together with its affiliates are collectively referred as the “Guangxi Liugong Group”.
- (iii) These transactions were carried out at market prices.
- (iv) These transactions were carried out on terms mutually agreed by the relevant parties.
- (v) The general services fee was based on the actual cost incurred plus 20% service charge.





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

- (vi) The utility services fee was based on the actual usage and with reference to market prices or, where no market prices were available, at actual cost incurred plus 20% service charge.
- (vii) The processing services fee was based on the actual cost incurred plus 20% service charge.
- (viii) The sales and warranty period repair service fee income was based on 3% on the sales of medium speed diesel engines on behalf of Weichai Factory.
- (ix) The consideration for the acquisition of the plant and equipment was based on a valuation report of the related assets prepared by Vigers Appraisal & Consulting Limited ("Vigers") dated 30th June, 2003.
- (x) The consideration for the acquisition of trademarks was based on a valuation report of the relevant intangible assets prepared by Vigers dated 26th February, 2004.
- (xi) The trademarks fee was calculated with reference to a valuation prepared by Vigers of the relevant trademarks as of 1st January, 2003.
- (xii) The technologies fee was calculated with reference to a valuation prepared by Vigers of the relevant technologies as of 1st January, 2003.
- (xiii) Rental for certain land and buildings, machinery and equipment were charged based on a fixed monthly charge.

In the opinion of the Directors, the above transactions were carried out in the ordinary course of the Company's business.

- (b) Details of the trading balances with related parties are set out in notes 11 and 12. These trading balances arised from the transactions are set out in note 20(a)(iii) and (iv).
- (c) Details of the non-trade balances with related parties are as follows:

Name of related company

Amount due to a related party:
China Heavy Duty Truck Group (*Note*)

30.6.2004 RMB'000 (unaudited)	31.12.2003 <i>RMB'000</i> <i>(audited)</i>
330,923	219,651





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

Note: As at 30th June, 2004, included in the balance due to China Heavy Duty Truck Group was an amount of RMB302,822,000 (31.12.2003: approximately RMB217,780,000) which represented the balance of the consideration payable for the acquisition of technologies and trademarks from Weichai Factory. The amount is repayable as follows:

	30.6.2004 <i>RMB'000</i> <i>(unaudited)</i>	31.12.2003 <i>RMB'000</i> <i>(audited)</i>
Within one year	67,409	43,556
In the second year	67,409	43,556
In the third to fifth year inclusive	168,004	130,668
	302,822	217,780
Less: Amount due for settlement within one year (including under current liabilities)	67,409	43,556
	235,413	174,224

The amount is unsecured, interest-free and repayable in instalments over a period of 5 years.

(d) Banking facilities

For the period from 17th April, 2003 to 16th September, 2003, China Heavy Duty Truck Group provided a guarantee to a bank in respect of banking facilities granted to the Company. The guarantee was cancelled on 16th September, 2003.

