

**WEICHAI POWER COMPANY LTD:
POLITICS MAKES FOR YOUNG BEDFELLOWS, ON OCCASION**

With at least 730 million renminbi in cash and pledged bank deposits, as at December 31, 2003, Weichai Power Company Ltd (Code: 2338, Main Board, The Stock Exchange of Hongkong Ltd) had to chutzpah to go public in the Hongkong Special Administrative Region (HKSAR) of the People's Republic of China (PRC) in order to raise another one billion renminbi – with no real and/or credible rationale behind the Initial Public Offer (IPO).

Weichai Power went public on the Main Board of The Stock Exchange of Hongkong Ltd on February 26, 2004, when it pitched an International Placing of 99 million, one-renminbi Shares at \$HK10.50 per Share (\$HK1=1.06 renminbi) and Offered another tranche of 11 million, one-renminbi Shares on the same basis as the International Placing tranche.

The flotation was a huge success, by any standards, with the Offered Shares, being 928 times oversubscribed, and the International Placing Shares, being 52 times oversubscribed.

Weichai Power is not a glamorous, high-flying, hi-tech company, but a bread-and-butter enterprise, churning out diesel engines for the markets of the PRC, proper.

At the time of its IPO, the Company claimed that the money from the sale of its shares would be used for the following purposes:

1. 500 million renminbi to be used for modifications to existing production lines for the manufacture of diesel engines, plus the establishment of an addition production line;
2. 80 million renminbi for the development of other diesel engines, known as WD615 and WD618 Euro III Engines*;
3. 80 million renminbi for the further development of the Company's sales force;
4. 54 million for the establishment of enterprise resources planning (whatever that might mean); and,
5. About 375 million renminbi to be used as General Working Capital.

* Euro III Engines comply with new European Union (EU) standards, which limit the emissions of carbon monoxide from engines.

Editor's Note: The Prospectus of Weichai Power, at Page 140, talks about Hongkong dollars in terms of the Net Proceeds from the IPO, but describes the use of that money in terms of renminbi. **TARGET**, therefore, has been forced to estimate the amount of money, which was tipped into the General Working Capital Account. In addition, the initial thinking of Management was based on a Share Offer/Placement Price of \$HK9.55 per Share, which was, eventually, increased to \$HK10.50 per Share. Also, the number of Shares, Placed and Offered, was, eventually, increased to 126.50 million. The additional money, Management stated, would, also, be put into the General

Working Capital Account, although the exact amount of money has not been stated, thus far, and **TARGET** is unable to quantify it.

As was only too apparent at the time of the flotation of Weichai Power, it did not require any additional funding – although, there is nothing wrong with a little greed along the way.

Also, there is absolutely nothing wrong with sopping up a little more cash from the market floor if people are very willing to part with it – as was, clearly, the case with regard to this IPO.

The History

Weichai Power was established in about 1953, the Prospectus states at Page 55.

It claims to be the first diesel factory in the PRC – which is difficult to believe and/or understand unless, of course, it is meant to indicate that this Company was the first diesel-engine manufacturer under the regime of the late Chairman Mao Tse Tung (Mao Ze Dong), who came to power on October 1, 1949, changing the name of the country from China to the People's Republic of China.

As one would expect, the original factory was ... [CLICK TO ORDER FULL ARTICLE](#)

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