Contents

Corporate Information

DIRECTORS

Executive Directors
Tan Xuguang *(Chairman and CEO)*
Xu Xinyu *(General Manager — Operations)*
Sun Shaojun *(General Manager — Technology)*
Zhang Quan *(General Manager — Marketing)*

Non-executive Directors
Yeung Sai Hong
Chen Xue jian
Yao Yu
Li San Yim
Tong Jingen
Zhang Fusheng
Julius G. Kiss
Han Xiaoqun (appointed on 5th December, 2005 for a term of three years as from 18th December, 2005)
Feng Gang (resigned with effect from 17th December, 2005)

Independent Non-executive Directors
Koo Fook Sun, Louis
Zhang Xiaoyu
Fang Zhong Chang

SUPERVISORS

Sun Chengping
Wang Yong
Jiang Jianfang

COMPANY SECRETARY, CHIEF FINANCIAL OFFICER AND QUALIFIED ACCOUNTANT

Zhang Yuanfu *(FCCA, CPA)*

AUTHORISED REPRESENTATIVES

Xu Xinyu
Zhang Yuanfu

REGISTERED ADDRESS AND HEADQUARTER OF THE COMPANY

197, Section A
Fu Shou East Street
High Technology Industrial Development Zone
Weifang
Shandong Province
The People's Republic of China
Postal Code: 261061
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Fax: (86) (536)-819 7073
website: http://www.weichai.com

PLACE OF BUSINESS IN HONG KONG

Suite 2501–2, 25th Floor
One International Finance Centre
1 Harbour View Street
Central, Hong Kong

AUDITORS

Non-PRC auditors:
Messrs. Deloitte Touche Tohmatsu
Certified Public Accountants

PRC auditors:
山東正源和信有限責任會計師事務所
(Shandong Zheng Yuan Hexin Accountants Limited)

LEGAL ADVISORS

As to Hong Kong law:
Richards Butler

As to PRC law:
中倫金通律師事務所 (Zhong Lun Law Firm)

AUDIT COMMITTEE

Koo Fook Sun, Louis *(Chairman)*
Zhang Xiaoyu
Fang Zhong Chang

Corporate Information

REMUNERATION COMMITTEE

Koo Fook Sun, Louis *(Chairman)*
Zhang Xiaoyu
Fang Zhong Chang
Zhang Fusheng
Yao Yu

NOMINATION COMMITTEE

Fang Zhong Chang *(Chairman)*
Koo Fook Sun, Louis
Zhang Xiaoyu
Xu Xinyu
Zhang Quan

PRINCIPAL BANKERS

Industrial and Commercial Bank of China
China Construction Bank Corporation
Bank of China
HSBC

HONG KONG H-SHARE REGISTRAR AND TRANSFER OFFICE

Computershare Hong Kong Investor Services Limited
Hopewell Centre
46th Floor
183 Queen's Road East
Wanchai
Hong Kong

SHARE INFORMATION

Number of issued shares	330,000,000 shares (203,500,000 domestic and foreign shares, and 126,500,000 H shares)
Board lot	1,000 H-shares
Stock code	2338
Abbreviation of the Company's share	濰柴動力 (Weichai Power)
Investors and media relations	***The Company:*** **Securities Department** Tel: (86) 536-229 7068 Fax: (86) 536-819 7073 Website: www.weichai.com ***Public Consultant:*** **Hill & knowlton Asia Ltd** Tel: (852) 2894 6321 Fax: (852) 2576 3551 Website: www.hillandknowlton.com.hk
Financial year-end date	31st December

Corporate Information

FINANCIAL CALENDAR INFORMATION

Latest time for lodging transfer documents with the Company's H-Share Registrar and Transfer Office in order to be entitled to attend and vote at the forthcoming annual general meeting and for the final dividend	4:00 p.m., 29th May, 2006
Latest time for returning the reply slip for attending the forthcoming annual general meeting	10th June, 2006
Date of the forthcoming annual general meeting	30th June, 2006
Book closure period	30th May, 2006 to 30th June, 2006
Dividends	Interim dividend paid . . . . RMB0.165 per share Proposed final dividend . . . . . . RMB0.165 per share Proposed payment date of final dividend . . . . 24th July, 2006

Financial Highlights

- Turnover of the Group in 2005 was RMB5,250.7 million, representing a decrease of RMB905.0 million or 14.7% over 2004.
- Profit attributable to shareholders of the Group for the year was RMB315.2 million, representing a decrease of RMB218.1 million or 40.9% over 2004.
- Basic earnings per share was RMB0.96, representing a decrease of RMB0.77 or 44.5% over 2004.
- Proposed final dividend is RMB0.165 per share for 2005. With the interim dividend of RMB0.165 per share paid during the year, the total dividend for the full year of 2005 amounted to RMB0.33 per share (2004: RMB0.30 per share), representing an increase of 10% when compared to that for the full year of 2004.

Dear Shareholders,

On behalf of the Board, I am pleased to present the audited consolidated financial results of the Group for the year ended 31st December, 2005.

1. REVIEW OF OPERATIONS

The heavy-duty truck and construction machinery industries in the PRC experienced great changes in 2005. The relevant departments of the State issued and implemented various new policies and regulations governing the design, sale and operation of commercial vehicles. Such new policies and regulations included 《道路車輛外廓尺寸、軸荷及質量限值》(Vehicles' Maximum Measurement On Size, Weight and Loading Capacity) ("GB1589") and 《機動車運行安全技術條件》(Safety Specifications for Power-driven Vehicles Operating on Roads) ("GB7258"). It took time for the truck manufacturers and customers to adapt to such new policies and regulations, and thus leading to a drop in market's sale volume. In addition, sale of trucks was also hard hit by the easing off of nationwide crackdown on truck overloading. Further, sales of trucks and construction machinery were adversely affected, to a certain extent, by the structural change in investments in infrastructures as a result of a series of macroeconomic adjustments carried out by the State in 2005.

Chairman's Statement

Due to the above changes in the operating environment in 2005, the heavy-duty truck industry in the PRC had experienced its first overall decline since 1997 with a drop in annual sales volume of approximately 36.2% in 2005, following the swift growth in 2003 and 2004. Under such severe market condition, the management team of the Company still managed to survive the predicament by adopting active measures. With its established technology, a sound sales network, well-structured manufacturing operations and a reputable brand name, the Company maintained its leading position in the market and remained the no. 1 driving force according to key industry indicators.

The Company sold a total of 114,000 units of diesel engines of different models in 2005, representing a decline of 15.1% over the corresponding period last year, and sales dropped 14.7% to approximately RMB5.25 billion. When compared to the previous year, the net profit attributable to shareholders decreased by 40.9% to approximately RMB320 million and earnings per share dropped by 44.5% to RMB0.96. The Group continued to play a leading role in the internal combustion engine industry in the PRC with market coverage of approximately 80% and 78% of the high-speed heavy-duty diesel engines used in heavy-duty trucks with a load capacity of 15 tonnes (and above) and in wheel loaders with a load capacity of 5 tonnes (and above), respectively.

In March 2005, the Company commenced bulk sale of its Euro III emission standard compliant high-speed heavy-duty diesel engines, the "Landking" ("藍擎"); whereas "Weichai" brand diesel engine was awarded Chinese Famous Product in September 2005, and was subsequently accredited as a "model enterprise of independent innovation" by the State Statistics Bureau. In November 2005, the Company was assessed and awarded《中國製造、行業內最具影響力品牌》("China Made, the Most Influential Brand Name") by the State Statistics Bureau. In December 2005, the Company received various awards including《專利進步企業十強》(Top Ten Enterprises of Patent Development) and《柴油機製造金牌企業》(Diesel Engine — Gold Medal Manufacturer) from the relevant departments of the PRC.

2. DIVIDEND

Putting shareholders' interests and return as its top priority, especially those of the minority shareholders, the Company has been maintaining a relatively stable dividend policy. Taking into account all relevant factors, including the continuous and relatively steady cash flow recorded by the Company and the need for sustainable future development, the Board has recommended, the payment of a final dividend of RMB0.165 per share for the year ended 31st December, 2005. With the interim dividend of RMB0.165 per share paid during the year, the total dividend for the full year of 2005 amounted to RMB0.33 per share (2004: RMB0.30 per share), representing an increase of 10% when compared to that for the full year of 2004, and the dividend payout ratio was approximately 34.4%. To optimise the return to our shareholders, the Company will continue paying efforts in realising a long-term, continuous and steady dividend payout.

3. ACQUISITION AND CONSOLIDATION

On 8th November, 2005, 濰柴動力(濰坊)投資有限公司 (Weichai Power (Weifang) Investment Co., Ltd.), a associate in which the Company holds 45% equity interest, successfully acquired approximately 28.12% equity interest in 湘火炬汽車集團股份有限公司 (Torch Automobile Group Co., Ltd) ("TAGC") and became its single largest shareholder.

Accordingly, the Company, through its shareholding in TAGC, will be in possession of a most-valued core resources of vehicle parts as well as the resources of heavy-duty trucks and mountain vehicles with promising growth potential. A manufacturer of the core parts of heavy-duty trucks in the PRC, TAGC boasts a core strength in terms of resources and development potential. 陝西重型汽車有限公司 (Shaanxi Heavy Duty Company Limited), a 51% subsidiary of TAGC, is one of the fastest-growing manufacturers of heavy-duty trucks with a load capacity of 15 tonnes and above with an annual capacity of 60,000 units. 陝西法士特齒輪有限公司 (Shaanxi Fast Gear Co., Ltd.), a 51% subsidiary of TAGC, has the largest production volume in the world in terms of single-factory gear production and commands 50% share of the PRC market of heavy-duty trucks with a load capacity of 8 tonnes and above and more than 90% share of the PRC markets of heavy-duty trucks with a load capacity of 15 tonnes and above. 陝西漢德車橋公司 Shaanxi Hande Auto Body Co., Ltd, a subsidiary of TAGC, is the largest centre of production of specialized heavy-duty vehicle axles in the world Torch Spark Plug Co., Ltd., a subsidiary of TAGC, is no. 1 in the PRC in terms of sales and production volume and assembling processes and no. 6 in the world in terms of the specialized production of spark plugs. The Company believes that with the firm support of the shareholders, it will be in a position to achieve sustainable innovation and product excellence with its internationally advanced product technology and corporate management experience by leveraging on available resources of core vehicle parts as well as heavy-duty trucks and mountain vehicles with sound growth potential. The management of the Company will be committed to the effective integration of all available resources to achieve the greatest synergy and create value for our shareholders.

Reference is made to an announcement of the Company dated 22nd March, 2006, in which the Company announced that 中國重型汽車集團有限公司 (China National Heavy Duty Truck Group Co. Ltd.) ("CHDTGL") would transfer its entire ownership in its wholly-owned subsidiary, 濰坊柴油機廠 (Weifang Diesel Engine Works) ("Weichai Factory"), to 山東省國有資產監督管理委員會 (State-owned Assets Supervision and Administration Commission of Shandong Province People's Government) ("Shandong SASAC") for its direct holding. In other words, Shandong SASAC will indirectly hold approximately 23.53% equity interest in the Company through its wholly-owned interest in Weichai Factory.

Chairman's Statement

4. DEVELOPMENT OPPORTUNITIES FOR THE COMPANY IN 2006

Year 2006 marks the commencement of the 11th Five-Year Plan (the "11th Five-Year Period") of the State which will provide excellent development opportunities for the Company.

Industries related to the Company are steadily recovering. First, the heavy-duty truck industry is expected to return to a growth track following the perfection and implementation of a range of industrial policies, such as GB1589, GB7258, 貨運汽車及汽車列車推薦車型工作規則的通知 (Notice Concerning the Working Rules on Recommended Types for Trucks and Vehicles) and 《收費公路試行計重收費指導意見》(Guiding Opinion on the Trial of Charge-by-Weight on Toll Roads) which will further guide and facilitate its development and provide opportunities for the development of our products. Second, during the 11th Five-Year Period, the State's focus on the "3 Agricultural Issues ("三農")" will facilitate active and smooth urbanisation of villages with resources to be channelled to the "3 Agricultural Issues", whereas the "Village to Village project ("村村通")" will further drive the demand for construction machinery and passenger cars which would in turn foster the development of the internal combustion engine industry. Third, the 11th Five-Year Period plan emphasises focus on innovation, leapfrog advances in key areas, sustainable development and future vision in developing science and technology, and the importance of enhancing the innovative capability of an enterprise. The State's strong emphasis on independent innovation and its enhanced support for enterprises with such capability will generate opportunities for the sound development of the Company.

5. DEVELOPMENT STRATEGIES OF THE COMPANY DURING THE 11TH FIVE-YEAR PERIOD

During the 11th Five-Year Period, the Company will strive to catch up with the technology in engine manufacturing by establishing an all-round diesel engine group with diversified target markets. We will seek to cooperate with foreign corporations, keep ourselves abreast of the global trend of diesel engines development, collaborate with world-renowned enterprises and famous brands and adopt international advanced technology in our products, with a view to leading the development of the high-speed heavy-duty diesel engine industry and creating better returns for our shareholders.

Last but not least, I would like to take this opportunity to express my sincere appreciation to all our shareholders and the general public for their care and support, as well as all our staff for their hard work and dedication.

Tan Xuguang
Chairman and Chief Executive Officer

Hong Kong, 19th April, 2006

Management Discussion and Analysis of Results of Operations and Financial Position

The Company is one of the China's leading high-speed, heavy-duty diesel engine manufacturers, supplying mainly to certain major domestic truck and construction machinery manufacturers. The Company's core products are six-cylinder, 110–266kw output, 9.7 litre displacement WD615 diesel engines and WD618 diesel engines with an output of 265–323kw. During the year under review, the Company started a trial production of its newly invented Euro III diesel engines, with a 10–12 litre displacement and higher power up to 480 horsepower, on a market testing basis by using the new production lines.

INDUSTRY REVIEW

Heavy-duty trucks industry

During the year under review, the PRC central government implemented a series of austerity measures to cool down investments in infrastructures. With effect from 1st April, 2005, the central government has implemented a new policy of 《道路車輛外廓尺寸、軸荷及質量限值》 (Vehicles' Maximum Measurement On Size, Weight and Loading Capacity), which required all truck manufacturers to re-design their trucks so as to meet certain design standards with specific length, height and chassis structure standards. As a result, 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 industry, which in turn substantially slowed down the sales of the Company's diesel engines which were used in heavy-duty trucks as compared to the previous year. In China, during the year, the total sales of heavy-duty trucks decreased by approximately 36% as compared with the same period in 2004. A sizable proportion of the unit sales of heavy-duty trucks with a load capacity of 15 tonnes (and above) in China was concentrated in few manufacturers, which also included the major customers of the Company, such as: 中國重型汽車集團有限公司 (China Heavy Duty Truck Group Co., Ltd) ("CHDTGL"), 重慶紅岩重型汽車有限公司 (Chongqing Hongyan Heavy Duty Motor Company Limited) ("Chongqing Hongyan"), 陝西重型汽車有限公司 (Shaanxi Heavy-duty Company Limited) ("Shaanxi Motor"), 北京福田汽車有限公司 (Beijing Futian Motor Company Limited) ("Beijing Futian"), 包頭北方奔馳重型汽車有限責任公司 (Baotou North-Benz Heavy-duty Truck Co., Ltd) ("North-Benz"), etc.

Construction machinery — Wheel loaders industry

During the year under review, the sale of the wheel loaders with a load capacity of 5 tonnes (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 machinery with a load capacity of 5 tonnes (and above) in the PRC was concentrated in a few manufacturers, which also included the major customers of the Company, such as: 廣西柳工機械股份有限公司 (Guangxi Liugong Machinery Co., Ltd) ("Guangxi Liugong"), 上海龍工機械有限公司 (Shanghai Longgong Machinery Company Limited) ("Shanghai Longgong"), 福建龍岩工程機械(集團)有限公司 (Fujian Longyan Construction (Group) Company Limited) ("Fujian Longyan"), 山東臨工工程機械股份有限公司 (Shandong Lingong Construction Machinery Co., Ltd) ("Shandong Lingong"), etc.

Management Discussion and Analysis of Results of Operations and Financial Position

SALES OF WD615 AND WD618 SERIES ENGINES

During the year under review, the Group's turnover decreased by approximately 14.7% from RMB6,155.8 million in 2004 to approximately RMB5,250.7 million in 2005. The turnover of the Group was derived mainly from the sale of diesel engines used in heavy-duty trucks and construction machinery, which in total accounted for approximately 82.4% and each represented approximately 53.3% and 29.1% of the total turnover of the Group, respectively. During the year under review, the Group sold approximately 114,180 units of diesel engines, compared to 134,460 units in 2004, representing a decrease of approximately 15.1%, while the average unit selling price of the Group remained relatively stable. Of the diesel engines sold for the year ended 31st December, 2005, approximately 63,490 units (2004: 83,100 units) were trucks engines, representing a decrease of approximately 23.6% when compared to that for the same period in 2004.

SALES OF DIESEL ENGINE PARTS

Apart from the production and sale of diesel engines, the Group is also engaged in the production and sale of engine parts. The production and sale of engine parts not only contributed to the sales revenue of the Group, but also ensured the generation of revenue from the provision of after-sales services on the parts. During the year ended 31st December, 2005, the Group recorded an approximately 33.0% increase in sales of engine parts from RMB513.5 million in 2004 to approximately RMB683.0 million in 2005. The surge was mainly attributable to the increase in accumulated sales volume of diesel engines in previous years. The sales of diesel engine parts represented approximately 13.0% (2004: 8.3%) of the Group's total turnover in 2005.

FINANCIAL REVIEW

Turnover

The Group's turnover decreased by approximately 14.7% from RMB6,155.8 million in 2004 to approximately RMB5,250.7 million in 2005. The decrease in turnover was the result of a negative demand in the heavy-duty trucks industry for diesel engines due to the implementation of a series of micro-tightening measures which slowed down the investments in infrastructures in China in 2005 and the easing off of the national-wide crack-down on truck overloading practices. During the year ended 31st December, 2005, the Company sold approximately 114,180 units of diesel engines, compared to 134,460 units in 2004, representing a decrease of approximately 15.1% while the unit average selling price of its diesel engines remained relatively stable.

Gross profit and gross profit margin

During the year ended 31st December, 2005, the Group's gross profit decreased by approximately 23.3% from RMB1,504.7 million in 2004 to approximately RMB1,154.3 million in 2005 as a result of decrease in the sales volume from 134,460 units in 2004 to approximately 114,180 units of diesel engines in 2005. Gross profit margin decreased from 24.4% to approximately 22.0% in 2005. The decrease in gross profit margin was mainly due to the decrease in the sale of heavy-duty trucks diesel engines in 2005 which have a relatively higher gross profit margin than the sale of diesel engines for construction machinery.

Distribution expenses

Distribution expenses increased from RMB391.8 million in 2004 to approximately RMB404.0 million in 2005. As a percentage of turnover, distribution expenses increased from 6.4% in 2004 to approximately 7.7% in 2005, which was mainly due to the increase in repair and maintenance expenses and after-sales services charges resulting from the temporary extension of warranty period from an average of 180 days for the first half of 2005 to one year for the second half year of 2005 and substantial increase in the number of after-sales services centers from an average of 1,100 in 2004 to 1,540 in 2005.

Administration expenses

Administration expenses the Group decreased by approximately 9.6% from RMB301.1 million in 2004 to approximately RMB272.1 million in 2005. As a percentage of turnover, the administration expenses increased from 4.9% in 2004 to approximately 5.2% in 2005. The increase in administration expenses was mainly due to the increase in the depreciation charged during the year.

Net profit margin

The Company's net profit attributable to shareholders decreased from RMB533.3 million in 2004 to approximately RMB315.2 million in 2005, the net profit margin decreased substantially from approximately 8.7% in 2004 to approximately 6.0% in 2005. The decrease in the net profit margin was mainly due to the gross profit margin decrease and increases in the percentage of distribution expense and administration expenses over the turnover in 2005 as discussed above; the decrease of income tax credit granted by the PRC government from RMB63.6 million in 2004 to approximately RMB10.4 million in 2005 has also led to the decrease in net profit margin of 2005.

Management Discussion and Analysis of Results of Operations and Financial Position

Taxation

	2005 **RMB'000**	2004 RMB'000
PRC Enterprise Income Tax:		
Current year	**106,379**	269,371
Overprovision in prior year	**(203)**	(240)
Tax credit	**(10,407)**	(63,647)
	95,769	205,484
Deferred tax	**(1,850)**	—
	93,919	205,484

PRC Enterprise Income Tax is calculated at the statutory income tax rate of 33% (2004: 33%) of the assessable profit of the Group, except on assessable profit derived from the production in the high technology development zone, which is taxed at a preferential rate of 15% since current financial year pursuant to the Notice of 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 proper implementation of the continuing administrative work after the cancellation 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》).

Liquidity and financial resources

The Group has a very solid financial position. As at 31st December, 2005, the net cash and cash equivalents of the Group amounted to approximately RMB710.0 million (2004: RMB1,774.2 million).

The Group will have sufficient financial resources to fund its operations, as well as its current investment needs and development plans.

Capital structure

During the year, the Group'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 Group to maintain an appropriate mix of equity and debt to ensure an efficient capital structure from time to time. As at 31st December, 2005, the Group had debts of approximately RMB334.2 million in aggregate and the gearing ratio was approximately 6.0% (2004: 0.4%) (total debt/total asset).

Management Discussion and Analysis of Results of Operations and Financial Position

Business and geographical segments

During the year, the Group was principally engaged in the business of manufacture and sale of diesel engines and related parts and substantially all of the Group's turnover and operating results were derived from the PRC and accordingly, no analysis of business and geographical segment is presented.

Pledge of assets

At 31st December, 2005, bank deposits of approximately RMB371.7 million (2004: RMB334.4 million) were pledged to banks to secure bills payable issued and bills receivables discounted by the Group.

At 31st December, 2004, bills receivable of approximately RMB119.9 million were pledged to banks to secure bills payable issued by the Group.

The pledged bank deposits carry prevailing bank interest rates. The pledge will be released upon the settlement of the relevant bank borrowings. The fair value of the bank deposits at 31st December, 2005 approximates the carrying amount.

Foreign exchange risk exposure

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

Contingent liabilities

The Group had no material contingent liabilities as at 31st December, 2005.

Capital commitments

As at 31st December, 2005, the Group had approximately RMB234.9 million (2004: RMB423.6 million) capital commitments, principally for the capital expenditure in respect of purchase of property, machinery and equipment.

Capital expenditure

During the year, the Group's capital expenditure amounted to approximately RMB807.2 million (2004: RMB774.9 million). This was mainly attributable to the acquisition and installation of new production lines, modification of existing production lines, research and development of Euro III diesel engines,

Management Discussion and Analysis of Results of Operations and Financial Position

but excluding the formation of the joint venture — 濰柴動力(濰坊)投資有限公司 (Weichai Power (Weifang) Investment Co., Ltd.) — for the acquisition of approximately 28.12% of shareholding interest in TAGC, a company listed on the Shenzhen Stock Exchange.

Human resources practice

As at 31st December, 2005, the Company had a total of over 6,550 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 year, some of the senior management of the Company attended training courses organised by reputational domestic and overseas universities. 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 Group has established an incentive scheme for its senior management. Under this scheme, up to 5% of the audited annual profit after tax of the Group will be paid as bonus to the Directors and other senior management staff each year.

Directors, Supervisors and Senior Management

DIRECTORS

Executive Directors

Mr. Tan Xuguang, aged 44, was re-appointed as an executive Director of the Company on 5th December, 2005 for a term of three years as from 18th December, 2005. Mr. Tan is also the chairman of the Board and the Chief Executive Officer of the Company. Mr. Tan joined Weichai Factory in 1977 and had held various positions including the deputy director of the import and export department, assistant to general manager, deputy general manager and general manager of Weichai Factory. Mr. Tan is a senior economist and obtained a master's degree in 動力工程 (power engineering) from Tianjin University. Mr. Tan is also the general manager of Weichai Factory. Mr. Tan is responsible for formulating the overall business development strategies for the Company.

Mr. Tan is a member of the 10th NPC. Mr. Tan received the "Outstanding Entrepreneur of the National Machinery Industry" award in 2002. Mr. Tan was honoured "第二屆中國經濟十大新聞人物" (One of the Top Ten News Makers in China Economy in 2004), the "most admired and outstanding manager by PRC users in 2004" in December 2004, the "best CEO/president of the engine sector within the PRC car industry" in February 2005, and the "most distinguished founding PRC entrepreneur" in March 2005. In 2005, he was awarded Model of National Work Force and selected as one of the 2005 CCTV Annual Economic Figure in December 2005.

Mr. Xu Xinyu, aged 42, was re-appointed as an executive Director of the Company on 5th December, 2005 for a term of three years as from 18th December, 2005. Mr. Xu is also the General Manager — Operations of the Company. Mr. Xu joined Weichai Factory in 1986 and had held the positions of director of corporate affairs office, director of human resources department, assistant to general manager, deputy general manager and executive deputy general manager of Weichai Factory. Mr. Xu is a senior economist and holds a bachelor's degree in science granted by 聊城師師範學院 (Liaocheng Institute of Education) in 1986 as well as an EMBA degree from National University of Singapore. Mr. Xu is responsible for implementing the business strategies and overseeing the operations of the Company.

Mr. Sun Shaojun, aged 40, was re-appointed as an executive Director of the Company on 5th December, 2005 for a term of three years as from 18th December, 2005. Mr. Sun is also the General Manager — Technology of the Company. Mr. Sun joined Weichai Factory in 1988 and had held the positions of assistant supervisor and supervisor of the engineering department, assistant to general manager and the chief engineer of Weichai Factory. Mr. Sun is a senior engineer and was graduated from 北京航空學院 (Beijing Aviation College) in 1988 with a master's degree in 工學 (engineering). Mr. Sun is responsible for overseeing the improvement and research and development of the Company's products and other technical matters.

Mr. Zhang Quan, aged 42, was re-appointed as an executive Director of the Company on 5th December, 2005 for a term of three years as from 18th December, 2005. Mr. Zhang is also the General Manager — Marketing of the Company. Mr. Zhang joined Weichai Factory in 1986 and had held the positions of directors of the quality control department, the production department and the

Directors, Supervisors and Senior Management

marketing management department, assistant to general manager and deputy general manager of Weichai Factory. Mr. Zhang is an engineer and was graduated from 山東工業大學 (Shandong Industrial University) in 1986 with a bachelor's degree in 工學 (engineering). Mr. Zhang is responsible for formulating and implementing the marketing activities of the Company.

Non-executive Directors

Mr. Yeung Sai Hong, aged 52, was re-appointed as a non-executive Director of the Company on 5th December, 2005 for a term of three years as from 18th December, 2005. Mr. Yeung is currently a director of Peterson Holdings Company Limited, which is a promoter of the Company. He is also a member of the 9th Shandong Provincial Committee of the Chinese People's Consultative Conference.

Mr. Chen Xue Jian, aged 49, was re-appointed as a non-executive Director of the Company on 5th December, 2005 for a term of three years as from 18th December, 2005. Mr. Chen is the general manager and legal representative of Weifang Investment Company, Mr. Chen served as deputy director of 濰坊市財政局 (Finance Bureau of Weifang City) and deputy director of 濰坊市地方稅務局 (Tax Bureau of Weifang City).

Mr. Yao Yu, aged 35, was re-appointed as a non-executive Director of the Company on 5th December, 2005 for a term of three years as from 18th December, 2005. Mr. Yao is an investment manager of Shenzhen Investment. He holds an MBA degree from the China Europe International Business School in 2000.

Mr. Li San Yim, aged 54, was re-appointed as a non-executive Director of the Company on 5th December, 2005 for a term of three years as from 18th December, 2005. Mr. Li founded 福建龍岩工程機械(集團)有限公司 (Fujian Longgong Construction Machinery (Group) Company Limited ("Fujian Longgong")), (a promoter of the Company) in 1993, of which he is the chairman. Fujian Longgong is principally engaged in the manufacture and sale of, among others, wheel-loaders. Mr. Li is also the Chairman of China Infrastructure Machinery Holdings Limited, which is a listing company in the Stock Exchange of Hong Kong Limited.

Mr. Tong Jingen, aged 43, was re-appointed as a non-executive Director of the Company on 5th December, 2005 for a term of three years as from 18th December, 2005. Mr. Tong was the engineer of the supply office, director of quality control office of ancillary components department, and deputy director of the corporate management department of 濟汽總廠 (Jiqi Factory), deputy director of the management department of CHDTGL, deputy general manager of 重汽銷售公司 (Jiqi Sales Company), and deputy chief economist and manager of treasury department, and he is currently the chief economist of CHDTGL. He holds a master's degree in 工學 (engineering) from Tsinghua University in 1989.

Ms. Zhang Fusheng, aged 48, was re-appointed as a non-executive Director of the Company on 5th December, 2005 for a term of three years as from 18th December, 2005. Ms. Zhang joined Weichai Factory in 1975. She was deputy director of audit department, director of finance department, deputy chief accountant and assistant to general manager, and she is now the chief accountant and financial controller of Weichai Factory. She is a senior accountant.

Mr. Julius G. Kiss, aged 78, was re-appointed as a non-executive Director of the Company on 5th December, 2005 for a term of three years as from 18th December, 2005. Mr. Kiss is the chairman of IVM Technical Consultants Wien G.m.b.H., which is a promoter of the Company.

Ms. Han Xiaoqun, aged 55, was re-appointed as a non-executive Director of the Company on 5th December, 2005 for a term of three years as from 18th December, 2005. Ms. Han is the general manager of 山東省外商投資服務公司 (Shandong Foreign Investment Service Company) and is the chairperson of 山東省企業托管經營股份有限公司 (Shandong Provincial Enterprises Trusteeship & Operation Co., Ltd.) which is a promoter of the Company.

Independent non-executive Directors

Mr. Zhang Xiaoyu, aged 61, was re-appointed as an independent non-executive Director of the Company on 5th December, 2005 for a term of three years as from 18th December, 2005. Mr. Zhang served as Deputy Director of 中國國家機械工業局 (State Machinery Industry Bureau of the PRC). He is a senior engineer with professor-grade treatment. Mr. Zhang is the vice-chairman of 中國機械工業聯合會 (China Machinery Industrial Association), chairman of 中國汽車工程學會 (China Vehicles Engineering Association) and chairman of 中國內燃機學會 (China Internal Combustion Engine Association).

Mr. Koo Fook Sun, Louis, aged 49, was re-appointed as an independent non-executive Director of the Company on 5th December, 2005 for a term of three years as from 18th December, 2005. Mr. Koo is the managing director of Hercules Capital Limited. He had held important positions in various international investment banks and had been director and chief executive officer of certain listed companies in Hong Kong. Apart from the Company, Mr. Koo is also an independent non-executive director of various companies listed on the main Board and GEM Board of the Stock Exchange. Mr. Koo is a member of Hong Kong Institute of Certified Public Accountant and graduated from the University of California at Berkeley with a bachelor's degree in business administration in 1980.

Mr. Fang Zhong Chang, aged 63, was re-appointed as an independent non-executive Director of the Company on 5th December, 2005 for a term of three years as from 18th December, 2005. Mr. Fang graduated from Harbin Industrial University, where he majored in Precision Instruments Studies (精密儀器專業). He previously served as engineer at Shandong Anqiu County Glasswork (山東安邱縣玻璃廠), Deputy Mayor of Anqiu County (安邱縣), Deputy Mayor of Weifang Municipal Government (濰坊市政府副市長), Secretary to the Municipal Disciplinary Committee of the Standing Committee of Weifang Municipal Committee (濰坊市委常委市紀委書記), and Deputy Director of the Standing Committee of Weifang Municipal People's Congress (濰坊市人大常委會副主任). He was also a

Directors, Supervisors and Senior Management

visiting researcher at the Chinese Academy of Management Science (中國管理科學院特邀研究員) and a member of the People's Congress for the Shandong Province (山東省人大代表). He retired from his public posts in 2002.

SUPERVISORS

Mr. Sun Chengping, aged 58, was re-appointed as a Supervisor of the Company on 5th December, 2005 for a term of three years as from 18th December, 2005. Mr. Sun is also the chairman of the supervisory committee of the Company. He joined Weichai Factory in 1969 and was the refinement workshop supervisor, deputy general manager of Weichai Factory. Mr. Sun is a senior economist.

Ms. Jiang Jianfang, aged 43, was re-appointed as a Supervisor of the Company on 5th December, 2005 for a term of three years as from 18th December, 2005. She is the deputy chief of the financial audit committee and a supervisor of 廣西柳工機械股份有限公司 (Guangxi Liugong Machinery Company Limited), a company listed on the Shenzhen Stock Exchange. Ms. Jiang is an accountant.

Mr. Wang Yong, aged 42, was re-appointed as a Supervisor of the Company on 18th December, 2005 for a term of three years as from 18th December, 2005. Mr. Wang joined Weichai Factory in 1984. He was the deputy director of production engineering department, director of engineering equipment department, deputy manager of the power branch, director of the corporate culture office of Weichai Factory and the director of the corporate affairs office of the Company. Mr. Wang is a senior engineer and was graduated from 上海交通大學 (Shanghai Transportation University) with a bachelor's degree in 工學 (engineering) in 1984.

OTHER SENIOR MANAGEMENT

Mr. Xu Hong, aged 46, is a General Manager — Manufacturing of the Company. Mr. Xu joined Weichai Factory in 1976 and held various positions including the deputy director of the casting branch and powering department, director of casting branch and manufacturing department.

Mr. Zhong Geng Hui, aged 49, is an assistant to General Manager and deputy general manager of marketing company of the Company. Mr. Zhong joined Weichai Factory in 1975 and held various positions including deputy general manager of sales company of Weichai Factory.

Mr. Liu Huisheng, aged 40, is the deputy general manager of 濰坊柴油機廠 (Weichai Diesel Engine Works) ("Weichai Factory"). Mr. Liu joined Weichai Factory in 1989 and had held various positions in Weichai Factory such as, the deputy general manager of the power branch, the deputy general manager of the WD615 branch, the deputy director of the purchasing department and the assistant to the general manager of Weichai Factory. Mr. Liu had also been appointed as the general manager of 重慶濰柴發動機廠 (Chongqing Weichai Diesel Engine Works). Mr. Liu holds a bachelor's degree.

Directors, Supervisors and Senior Management

Mr. Tong Dehui, aged 41, is the deputy General Manager — Technology and supervisor of the engineering department of the Company. He joined Weichai Factory in 1985 and was the assistant to supervisor, deputy supervisor and supervisor of the engineering department, deputy chief engineer and chief designer of Weichai Factory. Mr. Tong is a senior engineer and holds a master's degree in engineering.

Mr. Wu Hongwei, aged 39, is the director of the finance department of the Company. He joined Weichai Factory in 1991 and was the assistant to director, deputy director and executive deputy director of the finance department of Weichai Factory and the chief accountant of Chongqing Weichai. Mr. Wu holds a bachelor's degree.

Mr. Ding Yingdong, aged 37, is the director of the human resources department of the Company. He joined Weichai Factory in 1990 and was the assistant to director of the marketing management department and deputy director of the corporate planning department and director of human resources department of Weichai Factory. Mr. Ding is a senior economist and holds a bachelor's degree.

Mr. Han Lisheng, aged 41, is the director of the informative management department of the Company. He joined Weichai Factory in 1982 and held various positions including the director of the economic planning division and deputy director of the corporate planning department of Weichai Factory, director of the planning and development department and director of the corporate management department of the Company.

Mr. Feng Gang, aged 42, is the deputy general manager and and deputy general manager of marketing company of the Company. He joined Weichai Factory in 1986 and was an assistant to general manager of sales company and the executive deputy general manager of market management department of Weichai Factory. Mr. Fung is an engineer and holds a bachelor's degree.

Mr. Dai Lixin, aged 38, is the secretary to the Board and director of the securities department of the Company. He joined Weichai Factory in 1987 and was previously the deputy director of the treasury department of Weichai Factory. Mr. Dai is an economist and holds a bachelor's degree.

Mr. Zhang Yuanfu, aged 42, is the chief financial officer, company secretary and the qualified accountant of the Company and is responsible for the accounting and finance functions and secretarial affairs of the Company. Mr. Zhang graduated from Shandong University and holds a bachelor's degree in economics. Mr. Zhang is a fellow member of the Association of Chartered Certified Accountants in the United Kingdom and CPA of the Hong Kong Institute of Certified Public Accountants. Prior to joining the Company in September 2003, Mr. Zhang had worked for a number of listed companies in the main board and the GEM board of the Stock Exchange and has more than 18 years of experience in accounting and financial management.

Directors' Report

The Directors present their annual report and the audited consolidated financial statements for the year ended 31st December, 2005.

PRINCIPAL ACTIVITIES

The principal activities of the Company are the manufacture and sales of diesel engines and related parts. The principal activities of its associate and subsidiaries are set out in notes 20 and 37 to the financial statements respectively.

RESULTS AND APPROPRIATIONS

The results of the Group for the year ended 31st December, 2005 are set out in the consolidated income statement on page 42.

An interim dividend of RMB0.165 per share amounting to RMB54,450,000 was paid to shareholders during the year.

The Directors now recommend, subject to approval of the shareholders of the Company at the forthcoming annual general meeting, the payment of a final dividend of RMB0.165 per share to the shareholders on the register of members on 29th May, 2006, amounting to RMB54,450,000.

SHARE CAPITAL

Details of the share capital of the Company are set out in note 30 to the financial statements.

PROPERTY, PLANT AND EQUIPMENT

Details of movements during the year in the property, plant and equipment of the Group are set out in note 16 to the financial statements.

DISTRIBUTABLE RESERVES

The amount of the Company's reserves available for distribution to shareholders as at 31st December, 2005, calculated in accordance with the profit as reported under the relevant accounting principles and financial regulations applicable to companies established in the People's Republic of China or Hong Kong Financial Reporting Standards, whichever is less, was RMB755,141,000.

DIRECTORS AND SUPERVISORS

The Directors and Supervisors of the Company during the year and up to the date of this annual report were:

Executive Directors

Tan Xuguang *(Chairman and CEO)*
Xu Xinyu
Sun Shaojun
Zhang Quan

Non-Executive Directors

Yeung Sai Hong
Chen Xue Jian
Yao Yu
Li San Yim
Tong Jingen
Zhang Fusheng
Julius G. Kiss
Han Xiaoqun (appointed on 5th December, 2005 for a term of three years as from 18th December, 2005)
Feng Gang (resigned with effect from 17th December, 2005)

Independent Non-Executive Directors

Koo Fook Sun, Louis
Zhang Xiaoyu
Fang Zhong Chang

Supervisors

Sun Chengping
Wang Yong
Jiang Jianfang

DIRECTORS' AND SUPERVISORS' SERVICE CONTRACTS

Each of the Executive Directors has entered into a service contract with the Company commenced 24th November, 2003 and ended on 17th December, 2005. At the extraordinary general meeting of the Company held on 5th December, 2005, the terms of appointment for each of the Executive Directors were further extended to 17th December, 2008.

Directors' Report

The term of appointment of each of the Non-Executive Directors and Supervisors was from 18th December, 2002 to 17th December, 2005, save and except that the term of appointment of Chen Xue Jian (a Non-Executive Director) was from 29th June, 2004 to 17th December, 2005. At the extraordinary general meeting of the Company held on 5th December, 2005, the terms of appointment for each of the Non-Executive Directors and Supervisors, except Feng Gang (a Non-Executive Director) who resigned with effect from 17th December, 2005 and Wang Yong who was subject to re-appointment by employees of the Company, were further extended to 17th December, 2008. Mr. Wang Yong was re-appointed as a Supervisor of the Company on 18th December, 2005 by employees of the Company for a term of three years up to 17th December, 2008.

Each of the Independent Non-Executive Directors has a fixed term of appointment commencing from the date of the last annual general meeting of the Company and ending (i) on the next annual general meeting of the Company ("Next AGM"); or (ii) on the conclusion of the extraordinary general meeting (if any) of the Company convened prior to the Next AGM at which he is re-appointed as Independent Non-Executive Director for a term beyond the conclusion of the Next AGM (whichever is the earlier). At the extraordinary general meeting of the Company held on 5th December, 2005, each of the Independent Non-Executive Directors of the Company was re-appointed for a term of three years as from 18th December, 2005 to 17th December, 2008 (both days inclusive).

The Company has received, from each of the Independent Non-Executive Directors, an annual confirmation of his independence pursuant to Rule 3.13 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules"). The Company considers all of the Independent Non-Executive Directors are independent.

DIRECTORS' AND SUPERVISORS' INTERESTS IN SHARES, UNDERLYING SHARES AND CONVERTIBLE BONDS

As at 31st December, 2005, the interests of the Directors, Supervisors and their associates in the shares, underlying shares and convertible bonds of the Company and its associated corporations, as recorded in the register maintained by the Company pursuant to Section 352 of the Securities and Futures Ordinance ("SFO"), or as otherwise notified to the Company and The Stock Exchange of Hong Kong Limited (the "Stock Exchange") pursuant to the Model Code for Securities Transactions by Directors of Listed Companies ("Model Code"), were as follows:

Name of Director	Capacity	Number of domestic shares or foreign shares held	Percentage of the issued share capital of the Company
Tan Xuguang	Beneficial owner	4,300,000 *(Note 1)*	1.3%
Xu Xinyu	Beneficial owner	1,000,000 *(Note 1)*	0.3%
Sun Shaojun	Beneficial owner	1,000,000 *(Note 1)*	0.3%
Zhang Quan	Beneficial owner	1,000,000 *(Note 1)*	0.3%
Yeung Sai Hong *(Note 3)*	Held by controlled corporation	23,500,000 *(Note 2)*	7.1%
Li San Yim *(Note 4)*	Held by spouse and controlled corporation	21,500,000 *(Note 1)*	6.5%
Julius G. Kiss *(Note 5)*	Held by controlled corporation	10,750,000 *(Note 2)*	3.3%
Name of Supervisor			
Wang Yong	Beneficial owner	350,000 *(Note 1)*	0.1%

Notes:

1. These are domestic shares of the Company. Domestic shares are ordinary shares issued by the Company, with a Renminbi-denominated par value of RMB1.00 each, which are subscribed for and paid up in Renminbi or credited as fully paid up.

2. These are foreign shares of the Company. Foreign shares are ordinary shares issued by the Company, with a Renminbi-denominated par value of RMB1.00 each, which are subscribed for and paid up in a currency other than Renminbi. As at 31st December, 2005, these foreign shares are included in the domestic shares of the Company.

Directors' Report

3. Yeung Sai Hong, a Non-Executive Director, was directly and indirectly interested in 90% of the issued share capital of Peterson Holdings Company Limited ("Peterson"), which in turn held 23,500,000 foreign shares of the Company.

4. Li San Yim, a Non-Executive Director, and his spouse, Ni Yinying, were interested in 69.16% and 30.84%, respectively in the registered capital of 福建龍岩工程機械(集團)有限公司 (Fujian Longgong Construction Machinery (Group) Company Limited ("Fujian Longgong")), which in turn held 21,500,000 domestic shares of the Company, and therefore Li San Yim was deemed to be interested in these shares of the Company.

5. Julius G. Kiss, a Non-Executive Director, was indirectly interested in the entire issued share capital of IVM Technical Consultants Wien Gesellschaft m.b.H. ("IVM"), which in turn held 10,750,000 foreign shares of the Company.

Save as disclosed above, none of the Directors, Supervisors, chief executives, nor their associates had any interests or short positions in any shares, underlying shares or convertible bonds of the Company or any of its associated corporations as at 31st December, 2005.

ARRANGEMENTS TO PURCHASE SHARES OR DEBENTURES

At no time during the year was the Company or any of its subsidiaries 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 LISTED SECURITIES OF THE COMPANY

During the year, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities.

SUBSTANTIAL SHAREHOLDERS

The register of substantial shareholders maintained by the Company pursuant to Section 336 of the SFO shows that as at 31st December, 2005, the following shareholders had notified the Company of their relevant interests in the issued share capital of the Company.

Name	**Capacity**	**Number of domestic shares (Note 7) or foreign shares (Note 8) held**	**Percentage of share capital comprising only domestic shares and foreign shares**	**Number of H shares held (Note 9)**	**Percentage of share capital comprising only H shares**	**Percentage of total issued share capital**
濰坊柴油機廠 (Weifang Diesel Engine Works) ("Weichai Factory")	Beneficial owner	77,647,900	38.16%	Nil	—	23.53%
中國重型汽車集團有限公司 (China Heavy Duty Truck Group Co., Ltd.) ("CHDTGL") *(Note 1)*	Held by controlled corporation	77,647,900	38.16%	Nil	—	23.53%
Peterson *(Note 2)*	Beneficial owner	23,500,000	11.55%	Nil	—	7.12%
Yeung Sai Hong *(Note 2)*	Held by controlled corporation	23,500,000	11.55%	Nil	—	7.12%
Tingho Nominees Limited *(Note 2)*	Held by controlled corporation	23,500,000	11.55%	Nil	—	7.12%
Advantage Investment Corporation Limited *(Note 2)*	Held by controlled corporation	23,500,000	11.55%	Nil	—	7.12%
Fujian Longgong	Beneficial owner	21,500,000	10.57%	Nil	—	6.52%
Li San Yim *(Note 3)*	Held by controlled corporation and spouse	21,500,000	10.57%	Nil	—	6.52%
Ni Yinying *(Note 3)*	Held by controlled corporation and spouse	21,500,000	10.57%	Nil	—	6.52%
濰坊市投資公司 ("Weifang Investment Company") *(Note 4)*	Beneficial owner	19,311,550	9.49%	Nil	—	5.85%
深圳市創新投資集團有限公司 ("Shenzhen Chuangxin Investment Group Company Limited")	Beneficial owner	21,500,000	10.57%	Nil	—	6.52%
深圳市投資管理公司 ("Shenzhen Investment Management Company") *(Note 5)*	Held by controlled corporation	21,500,000	10.57%	Nil	—	6.52%

Directors' Report

Name	Capacity	Number of domestic shares (Note 7) or foreign shares (Note 8) held	Percentage of share capital comprising only domestic shares and foreign shares	Number of H shares held (Note 9)	Percentage of share capital comprising only H shares	Percentage of total issued share capital
IVM	Beneficial owner	10,750,000	5.28%	Nil	—	3.26%
ADTECH Advanced Technologies AG ("ADTECH") *(Note 6)*	Held by controlled corporation	10,750,000	5.28%	Nil	—	3.26%
Julius G. Kiss *(Note 6)*	Held by controlled corporation	10,750,000	5.28%	Nil	—	3.26%
JP Morgan Chase & Co.	Investment manager	Nil	—	13,773,969	10.89%	4.17%
Government of Singapore Investment Corporate Pte Ltd.	Investment manger	Nil	—	8,950,000	7.08%	2.71%
FMR Corp.	Investment manager	Nil	—	7,467,000	5.90%	2.26%

Notes:

1. CHDTGL, a State-owned enterprise, was the holding company of Weichai Factory and held the entire registered capital of Weichai Factory.

2. Yeung Sai Hong, a Non-Executive Director, was beneficially interested in the entire issued share capital of Tingho Nominees Limited, which in turn held 100% of Advantage Investment Corporation Limited, which was interested in 90% of the issued share capital of Peterson.

3. The registered capital of Fujian Longgong was held as to 69.16% by Li San Yim, a Non-Executive Director, and as to 30.84% by Ni Yinying, spouse of Li San Yim, and therefore Ni Yinying was deemed to be interested in these shares of the Company.

4. Weifang Investment Company was a State-owned enterprise.

5. Shenzhen Investment Management Company was interested in approximately 33.73% of the registered capital of Shenzhen Chuangxin Investment Group Company Limited.

6. ADTECH was wholly owned by Julius G. Kiss, a Non-Executive Director, and ADTECH was interested in the entire issued share capital of IVM.

7. Domestic shares are ordinary shares issued by the Company, with a Renminbi-denominated par value of RMB1.00 each, which are subscribed for and paid up in Renminbi or other currencies or credited as fully paid up.

8. Foreign shares are ordinary shares issued by the Company, with a Renminbi-denominated par value of RMB1.00 each, which are subscribed for and paid up in a currency other than Renminbi. As at 31st December, 2005, these foreign shares are included in the domestic shares of the Company.

9. H shares are overseas listed shares in the share capital of the Company, with a Renminbi-denominated par value of RMB1.00 each and are subscribed for and traded in Hong Kong dollars, and they are currently listed on the Main Board of the Stock Exchange.

Save as disclosed above, the Company has not been notified of any other relevant interests or short positions in the issued share capital of the Company as at 31st December, 2005, which were recorded in the register as required to be kept under Section 336 of the SFO.

CONNECTED TRANSACTIONS AND DIRECTORS' INTERESTS IN CONTRACTS OF SIGNIFICANCE

During the year, the Group had the following significant transactions with connected persons:

	Notes	RMB'000
China Heavy Duty Truck Group *(note i)*:		
Sales of diesel engines and related parts	**(iv)**	1,806,798
Purchases of materials	**(iv)**	128,868
Purchases of finished diesel engines	**(iv)**	409,791
General services fee paid	**(v)**	23,571
Utility services fee paid	**(vi)**	129,172
Processing services fee	**(vii)**	60,042
Sales and warranty period repair services fee income	**(viii)**	21,025
Purchases of property, plant and equipment	**(ix)**	145
Disposal of property, plant and equipment	**(ix)**	71
Rental paid for certain premises, machinery and equipment	**(x)**	46,218
Fujian Longgong Group *(note ii)*:		
Sales of diesel engines and related parts	**(iv)**	349,774
Guangxi Liugong Group *(note iii)*:		
Sales of diesel engines and related parts	**(iv)**	266,338

Notes:

(i) CHDTGL and its affiliates other than the Group are collectively referred as China Heavy Duty Truck Group.

(ii) Fujian Longgong together with its affiliates are collectively referred as the "Fujian Longgong Group".

(iii) 廣西柳工集團有限公司 ("Guangxi Liugong") is a promoter of the Company and held 1.36% interest in the Company at 31st December, 2005. Guangxi Liugong together with its affiliates are collectively referred as the "Guangxi Liugong Group".

(iv) These transactions were carried out at market prices or, where no market prices were available, at cost plus a percentage profit mark-up.

(v) The general services fee was based on the actual cost incurred plus not more than 20% service charge.

(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 not more than 20% service charge.

(vii) The processing services fee was based on the actual cost incurred plus not more than 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 China Heavy Duty Truck Group.

(ix) These transactions were carried out on terms mutually agreed by the relevant parties.

(x) Rental for certain land and buildings, machinery and equipment were charged based on a fixed monthly charge.

Save as disclosed above, no contracts of significance to which the Company or its subsidiaries was a party and in which a Director or a Supervisor of the Company had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

The Independent Non-Executive Directors have reviewed the continuing connected transactions and have confirmed that the transactions have been entered into by the Company in the ordinary course of its business, on normal commercial terms, and in accordance with the terms of the agreement governing such transactions that are fair and reasonable and in the interests of the shareholders of the Company as a whole.

CLOSURE OF REGISTER OF MEMBERS

The Register of Members of the Company will be closed from 30th May, 2006 to 30th June, 2006 (both days inclusive) during which no transfer of shares will be registered. In order to qualify for the attendance and voting at the forthcoming annual general meeting and for the final 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 29th May, 2006.

ARRANGEMENT TO PURCHASE SHARES OR DEBENTURES

At no time during the year was the Company or any of its subsidiaries 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.

PRE-EMPTIVE RIGHTS

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

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES OF THE COMPANY

During the year, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities.

MAJOR SUPPLIERS AND CUSTOMERS

The aggregate sales attributable to the Group's largest customer and the five largest customers taken together accounted for approximately 23% and 47% respectively of the Group's total sales for the year.

At 31st December, 2005, CHDTGL and Fujian Longgong were shareholders holding indirectly more than 5% of the Company's share capital. CHDTGL, together with companies under its control other than the Group, was the Group's largest customer. Fujian Longgong Group was one of the Group's five largest customers. All transactions between the Group and the customers concerned were carried out on normal commercial terms.

Save as disclosed above, at no time during the year did a Director, an associate of a Director or a shareholder of the Company, which to the knowledge of the Directors, owns more than 5% of the Company's share capital, have an interest in any of the Group's five largest suppliers or customers.

AUDIT COMMITTEE

The Audit Committee comprises all three independent non-executive directors. The Chairman of the Audit Committee is Mr. Koo Fook Sun, Louis, an independent non-executive director. Mr. Koo is an experienced investment banker with appropriate professional qualifications or accounting or related financial management expertise as required under Rule 3.10(2) of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") for the purpose of such appointment.

Meetings of the Audit Committee generally held not less than twice a year to review and discuss the interim and annual financial statements respectively. Additional meetings may also be held by the Committee from time to time to discuss special projects or other issues which the Committee considers necessary. The external auditors of the Company may request a meeting if they consider that it is necessary to do so. Throughout the year, the Audit Committee discharged its responsibilities, reviewed and discussed the financial results and internal control system of the Company. In accordance with the requirements of Appendix 16 of the Listing Rules, the Audit Committee has reviewed the consolidated financial statements for the year ended 31st December, 2005. The non-PRC auditors of the Company have audited the consolidated financial statements and have issued an unqualified auditors' report.

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

The Company complied with the code provisions of the Code on Corporate Governance Practices in Appendix 14 to the Listing Rules throughout the year. None of the Directors is aware of any information that would reasonably indicate that the Company is not or was not for any time during the period under review in compliance with the code provisions of the Code on Corporate Governance Practices in Appendix 14 to the Listing Rules.

Directors' Report

COMPLIANCE WITH THE MODEL CODE

During the year, the Company has 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 as set out in Appendix 10 to the Listing Rules (the "Code"). Having made specific enquiry of all Directors, the Directors have confirmed that they have complied with the required standard set out in the Code for the year under review.

SUFFICIENCY OF PUBLIC FLOAT

The Company has maintained a sufficient public float throughout the year ended 31st December, 2005.

POST BALANCE SHEET EVENT

Details of the post balance sheet event are set out in note 35 to the financial statements.

AUDITORS

A resolution will be submitted to the forthcoming annual general meeting to re-appoint Messrs. Deloitte Touche Tohmatsu as auditors of the Company.

APPROVAL OF THE CONSOLIDATED FINANCIAL STATEMENTS

The audited consolidated financial statements for the year were approved by the Board on 19th April, 2006.

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 has been published on the website of the Stock Exchange at www.hkex.com.hk.

On behalf of the Board

Tan Xuguang
Chairman and CEO
Hong Kong, 19th April, 2006

Report of the Supervisory Committee

In 2005, in accordance with the relevant provisions of the Company Law of the People's Republic of China (the "Company Law") and Articles of Association of the Company, and in compliance with the principle of integrity, all members of the Supervisory Committee of the Company (the "supervisory committee") performed their duties of supervision with a view to protecting shareholders' interests in line with their accountability to all shareholders. They monitored the operations and financial position as well as the performance of senior management of the Company for the year of 2005. On behalf of the Supervisory Committee, I hereby present our report for 2005:

(I) OVERVIEW OF THE WORK OF THE SUPERVISORY COMMITTEE

In 2005, the supervisory committee conducted inspections of the operations and financial position of the Company, and reviewed the financial statements regularly.

In 2005, the supervisors of the Company attended all the Board meetings and shareholders' meeting of the Company.

(II) INDEPENDENT OPINION OF THE SUPERVISORY COMMITTEE ON RELEVANT MATTERS OF THE COMPANY IN 2005

1. Compliance of the Company's Operations with Legal Requirements

Pursuant to the laws and regulations of China and Hong Kong, the Supervisory Committee has duly supervised and examined the procedures for convening board meetings, resolutions, execution of resolutions of shareholders' general meetings by the Board, performance of duties by senior management of the Company, as well as the healthy establishment and consistent implementation of the Company internal management system.

The Supervisory Committee is of the view that the Board and senior management of the Company operated in accordance with the Company Law, Securities Law of the PRC, the Articles of Association of the Company as well as other relevant regulations and rules of Hong Kong. With integrity and diligence, they performed their duties, executed all resolutions and authorities of the shareholders' general meetings and conducted all operations in compliance with laws and regulations. Through the adoption of various systems, the Company further improved its corporate governance structure and internal management policies which have formed the basic internal control system of the Company. When examining the financial position of the Company and monitoring the performance of directors and senior management of the Company, the Supervisory Committee was not aware of any act harmful to the interests of the Company and shareholders, nor was there any act in breach of laws, regulations, the Articles of Association or rules and policies.

Report of the Supervisory Committee

2. Examination of Financial Position of the Company

The Supervisory Committee earnestly examined the financial statements of the Company for 2005, the Company's profit distribution plan for 2005 and the unqualified auditors' report for 2005 issued by the PRC and international auditors of the Company and other relevant information.

The Supervisory Committee is of the view that the financial statements of the Company reflect the financial position and operating results of the Company in all material respects in an objective, authentic and fair manner, and the financial statements is authentic and reliable. The Supervisory Committee has agreed on the audited financial statements issued by the auditors as well as the profit distribution plan of the Company for 2005.

3. Use of Proceeds from the IPO of the Company

The Supervisory Committee exercised inspection over the use of the proceeds raised. After the Company received proceeds raised from the listing of its shares, the Board has been observing its undertakings as stated in the prospectus of the Company dated 26th February, 2004 (the "Prospectus"), and has effectively used the proceeds in a manner responsible to the shareholders. The Supervisory Committee is of the opinion that up to the end of this year, all the projects set out in the prospectus have been implemented and completed in accordance with the statements and progresses of the Company.

4. Transactions of the Company for Acquisition of 湘火炬汽車集團股份有限公司 (Torch Automobile Group Co., Ltd) ("TAGC")

On 8th November, 2005, 濰柴動力(濰坊)投資有限公司 (Weichai Power (Weifang) Investment Co., Ltd.), an associate company in which the Company holds 45% equity interest, successfully acquired 28.12% interest in TAGC and became its single largest shareholder. The Supervisory Committee is of view that the acquisition was in compliance with the Company Law, Securities Law of the PRC, the Articles of Association of the Company as well as other relevant regulations and rules of Hong Kong.

5. Fairness of Connected Transactions

For the year ended 31 December 2005, the Supervisory Committee reviewed all the connected transactions of the Company and is of the view that the connected transactions of the Company for 2005 were conducted on the principles of fairness and equality at reasonable prices and not exceed the annual caps approved by shareholders. No act harmful to shareholders' interests was found.

Report of the Supervisory Committee

The supervisory committee expects that the Company will continue to uphold the principle of rapid and coordinated development, continue to increase its reserve of resources, and further enhance the use of resources through technological improvement and management innovation. Also, the Company should improve internal control and maximise its profits through a standardised financial management system. Furthermore, the senior management is expected to develop a sense of macro management, inculcate team spirit, advocate in-depth development and make good decisions to lead the Company towards continued growth.

In 2006, the supervisory committee will continue to perform its duties of supervision diligently for the protection of the interests of shareholders and the Company in accordance with the Company Law and the Articles of Association of the Company.

By Order of the Supervisory Committee
Sun Chengping
Chairman

Weifang, Shandong Province

19th April, 2006

Corporate Governance Report

The Company's goal has always been to enhance its corporate value, focusing on the stable and positive long-term growth of shareholders' returns, to ensure the sustainable long-term development of the Company and to generate greater returns for shareholders. In order to achieve the above goal and implement good corporate governance, we have been taking numerous measures to achieve an effective board of Directors, including establishing four principal board committees, namely, the audit committee, the strategic development and investment committee, the remuneration committee and the nomination committee. We have maintained and refined our internal controls and procedures on information disclosure to ensure that all material information is made known to the board of directors promptly and disclosed fairly, truthly and in a timely manner. We will conduct periodic reviews of our corporate governance procedures and practices so as to ensure the long-term sustainable development of the Company.

THE BOARD OF DIRECTORS

The key responsibilities of the board include, among other things, formulating the Company's overall strategies, setting management targets, regulating internal controls and financial management, and supervising the management's performance while the day-to-day operations and management are delegated by the Board to the executives of the Company.

The Board currently comprises 15 directors, whose details are given on page 16 to page 19 of this annual report. The Board includes four Executive Directors, eight Non-executive Directors and three Independent Non-executive Directors. Namely, Mr. Tan Xuguang (Chairman and CEO), Mr. Xu Xinyu, Mr. Sun Shaojun, Mr. Zhang Quan as executive Directors. Mr. Yeung Sai Hong, Mr. Chen Xuejian, Mr. Yao Yu, Mr. Li San Yim, Mr. Tong Jingen, Ms. Zhang Fusheng, Mr. Julius G. Kiss, Ms. Han Xiaoqun as Non-executive Directors and Mr. Koo Fook Sun, Louis, Mr. Zhang Xiaoyu and Mr. Fang Zhong Chang as Independent Non-executive Directors. Currently, the role of Chairman and Chief Executive Officer of the Company are performed by Mr. Tan Xuguang. Mr. Tan is responsible for the overall management of the Company. The Company considers that the combination of the roles of the Chairman and Chief Executive Officer can promote the efficient formulation and implementation of the Company's strategies which will enable the Company to seize business opportunities efficiently and promptly.

The Company has received from each of the Independent Non-executive Directors, an annual confirmation of his independence pursuant to Rule 3.13 of the Listing Rule and considers each of the Independent Non-executive Directors to be independent.

The Board of the Company has notified each of the Directors and Supervisors of the Company in advance that they should not trade in the securities of the Company within the period as stipulated under the Listing Rules. All Directors and Supervisors confirmed that they were in compliance with the Listing Rules in this respect.

The Company held six board meetings in 2005 for discussion and approval of important items such as interim results and annual results, dividends and investment projects etc. There was 100% attendance rate (including attendance by appointing another Director as his representative to attend and vote at the meeting on his behalf was treated as attended the meeting in person) for all Board meetings in 2005, details of which are set out on page 38 of this annual report.

AUDIT COMMITTEE

The Audit Committee comprises all the Independent Non-executive Directors, they are Mr. Koo Fook Sun, Louis, Mr. Zhang Xiaoyu and Mr. Fang Zhong Chang, with Mr. Koo Fook Sun, Louis, acts as the Chairman of the Audit Committee, having appropriate professional qualifications and experience in financial matters. The terms of reference of the Committee are aligned with the recommendations set out in "A Guide for Effective Audit Committees" issued by the Hong Kong Institute of Certified Public Accountants.

The Audit Committee held two meetings during 2005, presided over by Mr. Koo Fook Sun, Louis. Details of the attendance are set out on page 38 of this annual report.

Major jobs accomplished by the Audit Committee during the year as follows:

- Review the annual, interim financial statements of the Company, as well as management recommendations furnished by the external auditors and responses from the Company's management;
- Review the accounting policies and practices adopted by the Company and related matters;
- Review the revised terms for certain existing continuing connected transactions and recommended to independent shareholders to vote in favour of the ordinary resolutions at the EGM held on 5th December, 2005 to approve the new terms for such continuing connected transactions.
- Recommending the setting up a supervisory committee to ensure that all connected transactions of the Company are fair, impartial and transparency, offering full protection to the interests of minority shareholders.
- Assisting the Board to monitor the Company's internal audit.

Throughout the year under review, the Audit Committee discharged its responsibilities, reviewed and discussed the financial results and internal control system of the Company.

In accordance with the requirements of Appendix 16 of the Listing Rules, the Audit Committee has reviewed the consolidated financial statements for the year ended 31st December, 2005. The non-PRC auditors of the Company have audited the consolidated financial statements and have issued an unqualified auditors' report.

Corporate Governance Report

STRATEGIC DEVELOPMENT AND INVESTMENT COMMITTEE

Established in April 2005, the Strategic Development and Investment Committee (the "Committee") is principally responsible for examining and reviewing the Company's strategic plans, monitoring the implementation of strategic planning, and facilitating timely adjustments to the Company's strategies and governance structure.

The Committee currently comprises Mr. Tan Xuguang (Chairman of the Board and the Committee), Mr. Sun Shao Jun, Mr. Tong Jingen, Mr. Chen Xue Jian, Mr. Zhang Quan, Mr. Li San Yim, Mr. Zhang Xiaoyu and Mr. Julius G. Kiss.

REMUNERATION COMMITTEE

The Company founded the Remuneration Committee (the "Committee") in April 2005. The Committee is responsible for recommendation to the Board on the remuneration packages and terms of employment for Directors, Supervisors and senior management. The Committee also determines relevant remuneration policy for Directors, Supervisors and senior management and their participation in incentive schemes operated by the Company.

The Committee currently comprises all the Independent Non-executive Directors and two Non-executive Directors, they are Mr. Koo Fook Sun, Louis (Chairman), Mr. Zhang Xiaoyu, Mr. Fang Zhong Chang, Ms. Zhang Fusheng and Mr. Yao Yu.

NOMINATION COMMITTEE

The Nomination Committee was founded in April 2005. It comprises all the Independent Non-executive Directors and two Executive Directors, they are Mr. Fang Zhong Chang, (Chairman), Mr. Koo Fook Sun, Louis, Mr. Zhang Xiaoyu, Mr. Xu Xinyu and Mr. Zhang Quan. The meeting of the Nomination Committee will be arranged and held on an as-needed basis. The Nomination Committee will identify qualified candidates to fill the Board membership whenever such vacancy arises, it will nominate such candidates for the Board to consider, and regularly review the composition of the Board as well as make suggestions as to any change that may be required.

Attendance at meetings of the Board/Supervisory Committee and specialised committees (attendance in person/number of meetings) during the year is as follows:

Name	Board/ Supervisory Committee	Audit Committee
Directors		
Tan Xuguang	6/6	
Xu Xinyu	6/6	
Zhang Quan	6/6	
Sun Shaojun	6/6	
Yeung Sai Hong	6/6	
Chen Xue Jian	6/6	
Yao Yu	6/6	
Li San Yim	6/6	
Tong Jingen	6/6	
Zhang Fusheng	6/6	
Feng Gang	4/4	
Han Xiaoqun	2/2	
Julius G. Kiss	6/6	
Independent Non-executive Directors		
Koo Fook Sun, Louis	6/6	2/2
Zhang Xiaoyu	6/6	2/2
Fang Zhong Chang	6/6	
Supervisors		
Sun Chengping	2/2	
Wang Yong	2/2	
Jiang Jianfang	2/2	

The Directors and Supervisors, who were unable to attend any meeting in person, had appointed another Director or Supervisor (as the case may be), as his representative to attend and vote at the meeting on his behalf and was treated as having attended the meeting in person.

CONTROL MECHANISMS

Supervisory Committee

The Supervisory Committee consists of three members, with one Supervisor being elected from the staff as a representative of employees and the other two elected by the shareholders of the Company. The Supervisory Committee is responsible for supervision over the Board and its members and senior management, so as to prevent them from abusing their authorities and violating the legal interests of shareholders, the Company and its staff. The size and composition of the Company's Supervisory Committee are in compliance with the requirements of the relevant laws and regulations of the PRC. The Supervisory Committee held two meetings during the year to carry out supervision on behalf of the shareholders in respect of the Company's financial matters and the lawfulness and compliance on the discharge of duties by the Directors and senior management. The Supervisory Committee members attended all Board meetings and Shareholders' meetings and diligently performed its supervisory duties.

INTERNAL CONTROL AND AUDIT

Internal control systems have been designated to allow the Board to monitor the Company's overall financial position, to protect its assets and to assure against material financial misstatement or loss. The Company Internal Audit Department plays a major role in monitoring the internal governance of the Company. Key tasks of the department include:

- unrestricted access to and review of all aspects of the Company's activities and internal controls;
- comprehensive audits of the practices, procedures and internal controls of all business and support units and subsidiaries on a regular basis;
- liaison with external auditors on the quality and effectiveness of internal controls, systems and procedures;
- investigation of business ethics, conflicts of interest and other Company policy violations; and
- special reviews of areas of concern identified by management.

SHAREHOLDERS MEETING AND INVESTOR RELATIONS

Shareholders' Meeting is the highest authority of the Company. It provides a good opportunity for direct communications and to building a sound relationship between the Board and the shareholders of the Company. Therefore, the Company attaches great importance to such meetings. In 2005, the Company convened two General Meetings. Matters reviewed and approved at the meetings include the following:

- the Report of the Directors, Report of Supervisory Committee and Financial Report for 2004;
- the profit distribution and final dividend distribution proposals for 2004;
- re-appointment of members of the Board and the Supervisory Committee;
- approval of revised terms of continuing connected transactions.

The Chairman of the Board chaired such general meetings and explained matters concerning the procedures for voting for shareholders' consideration and the shareholders voted on each resolution, members of the Audit Committee and the Supervisory Committee had been notified to attend the general meetings.

The Company has established a designated securities department for investor relations, which is responsible for matters concerning relations with the investors. The Company's management maintains close communications with investors, analysts and the media by various means including roadshows, individual interviews, meetings and investors' visits to the Company, thereby further increasing investors' recognition of the Company. In 2005, the Company arranged designated senior management to visit investors in two global roadshows, arranged several corporate visits for investors, participated in investors' meetings arranged by investment banks. In addition, our investor relations department is also responsible for answering investors' enquiries and mails on a timely basis.

Auditors' Report

Deloitte.
德勤

TO THE SHAREHOLDERS OF WEICHAI POWER CO., LTD.
濰柴動力股份有限公司
(incorporated in the People's Republic of China with limited liability)

We have audited the consolidated financial statements of Weichai Power Co., Ltd. and its subsidiaries on pages 42 to 87 which have been prepared in accordance with accounting principles generally accepted in Hong Kong.

RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITORS

The Directors are responsible for the preparation of consolidated financial statements which give a true and fair view. In preparing consolidated financial statements which give a true and fair view it is fundamental that appropriate accounting policies are selected and applied consistently.

It is our responsibility to form an independent opinion, based on our audit, on those financial statements and to report our opinion solely to you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

BASIS OF OPINION

We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the consolidated financial statements. It also includes an assessment of the significant estimates and judgments made by the directors in the preparation of the consolidated financial statements, and of whether the accounting policies are appropriate to the circumstances of the Group, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance as to whether the consolidated financial statements are free from material misstatement. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the consolidated financial statements. We believe that our audit provides a reasonable basis for our opinion.

OPINION

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs of the Group as at 31st December, 2005 and of the profit and cash flows of the Group for the year then ended and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

Deloitte Touche Tohmatsu
Certified Public Accountants
Hong Kong
19th April, 2006

Consolidated Income Statement

For the year ended 31st December, 2005

	NOTES	2005 RMB'000	2004 RMB'000 (restated)
Turnover	7	**5,250,735**	6,155,779
Cost of sales		**(4,096,408)**	(4,651,073)
Gross profit		**1,154,327**	1,504,706
Other income	8	**69,963**	64,937
Distribution costs		**(403,968)**	(391,838)
Administrative expenses		**(272,052)**	(301,062)
Research and development expenses		**(94,869)**	(82,370)
Other expenses		**(762)**	(2,476)
Share of results of an associate		**941**	—
Finance costs	9	**(42,978)**	(53,159)
Profit before tax		**410,602**	738,738
Income tax expense	10	**(93,919)**	(205,484)
Profit for the year	11	**316,683**	533,254
Attributable to:			
Equity holders of the parent		**315,203**	533,254
Minority interests		**1,480**	—
		316,683	533,254
Dividends	14	**103,950**	72,075
Basic earnings per share	15	**RMB0.96**	RMB1.73

Consolidated Balance Sheet

At 31st December, 2005

	NOTES	2005 RMB'000	2004 RMB'000 (restated)
NON-CURRENT ASSETS			
Property, plant and equipment	16	**1,608,840**	911,933
Prepaid lease payments — non-current portion	17	**60,491**	61,769
Intangible assets	18	**202,226**	264,449
Interest in an associate	20	**561,191**	—
Available-for-sale financial assets	21	**20,000**	—
Investment securities	22	**—**	20,000
Deposits paid for acquisition of property, plant and equipment	23	**143,960**	358,155
Deferred tax assets	31	**1,850**	—
		2,598,558	1,616,306
CURRENT ASSETS			
Inventories	24	**645,578**	429,149
Trade and bills receivables	25	**1,162,049**	661,912
Deposits, prepayments and other receivables	25	**122,826**	96,998
Prepaid lease payments — current portion	17	**1,278**	1,278
Pledged bank deposits	26	**371,670**	334,445
Bank balances and cash	25	**709,996**	1,774,220
		3,013,397	3,298,002
CURRENT LIABILITIES			
Trade and bills payables	27	**1,811,506**	1,955,546
Other payables and accruals	27	**379,253**	287,236
Amount due to a related party	36(c)	**63,272**	90,525
Tax payable		**185,370**	189,058
Discounted bills with recourse		**235,200**	—
Unsecured bank borrowings — due within one year	28	**44,241**	20,000
Warranty provision	29	**18,559**	12,996
		2,737,401	2,555,361
NET CURRENT ASSETS		**275,996**	742,641
TOTAL ASSETS LESS CURRENT LIABILITIES		**2,874,554**	2,358,947

Consolidated Balance Sheet

At 31st December, 2005

	NOTES	**2005 RMB'000**	2004 RMB'000 (restated)
NON-CURRENT LIABILITIES			
Amount due to a related party	36(c)	**123,593**	202,226
Unsecured bank borrowings — due after one year	28	**290,000**	—
		413,593	202,226
		2,460,961	2,156,721
CAPITAL AND RESERVES			
Share capital	30	**330,000**	330,000
Reserves		**2,068,581**	1,826,721
Equity attributable to equity holders of the parent		**2,398,581**	2,156,721
Minority interests		**62,380**	—
		2,460,961	2,156,721

The financial statements on pages 42 to 87 were approved and authorised for issue by the Board of Directors on 19th April, 2006 and are signed on its behalf by:

Mr. Tan Xuguang
EXECUTIVE DIRECTOR

Mr. Xu Xinyu
EXECUTIVE DIRECTOR

Consolidated Statement of Changes in Equity

For the year ended 31st December, 2005

	Attributable to equity holders of the parent								
	Share capital RMB'000	Share premium RMB'000	Capital reserve RMB'000	Statutory surplus reserve RMB'000	Statutory welfare reserve RMB'000	Retained profits RMB'000	Total RMB'000	Minority interests RMB'000	Total RMB'000
At 1st January, 2004	215,000	—	—	27,641	13,820	218,039	474,500	—	474,500
Conversion of certain state-owned domestic shares to H shares	(11,500)	—	—	—	—	—	(11,500)	—	(11,500)
Issue of H shares (including those converted from domestic shares)	126,500	1,166,797	—	—	—	—	1,293,297	—	1,293,297
Expenses incurred in connection with the issue of shares (restated)	—	(60,755)	—	—	—	—	(60,755)	—	(60,755)
Profit for the year, representing total recognised income for the year (restated)	—	—	—	—	—	533,254	533,254	—	533,254
Dividends paid	—	—	—	—	—	(72,075)	(72,075)	—	(72,075)
Transfer	—	—	—	53,687	26,843	(80,530)	—	—	—
At 31st December, 2004 (restated)	330,000	1,106,042	—	81,328	40,663	598,688	2,156,721	—	2,156,721
Effects of changes in accounting policies (see Note 2)	—	—	30,607	—	—	—	30,607	—	30,607
At 1st January, 2005 (restated)	330,000	1,106,042	30,607	81,328	40,663	598,688	2,187,328	—	2,187,328
Shares issued by subsidiaries to minority interests	—	—	—	—	—	—	—	60,900	60,900
Profit for the year, representing total recognised income for the year	—	—	—	—	—	315,203	315,203	1,480	316,683
Dividends paid	—	—	—	—	—	(103,950)	(103,950)	—	(103,950)
Transfer	—	—	—	30,791	15,395	(46,186)	—	—	—
At 31st December, 2005	330,000	1,106,042	30,607	112,119	56,058	763,755	2,398,581	62,380	2,460,961

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 Group'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 Articles of Association of the Company and its subsidiaries, the statutory surplus reserve shall only be used for making up losses, capitalisation into share capital and expansion of the relevant entity's production and operation. The statutory welfare fund is used for the collective welfare of the relevant entity'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 Hong Kong Financial Reporting Standards, whichever is less.

At 31st December, 2005, the distributable reserves of the Company was RMB755,141,000 (2004: RMB598,688,000 as restated).

Consolidated Cash Flow Statement

For the year ended 31st December, 2005

	2005 RMB'000	2004 RMB'000 (restated)
OPERATING ACTIVITIES		
Profit before tax	**410,602**	738,738
Adjustments for:		
Share of results of an associate	**(941)**	—
Finance costs	**42,978**	53,159
Depreciation of property, plant and equipment	**109,597**	53,835
Amortisation of prepaid lease payments	**1,278**	699
Amortisation of intangible assets	**62,223**	72,595
Loss on disposal of property, plant and equipment	**489**	1,266
Impairment loss on trade receivables	**15,272**	17,244
Operating cash flows before movements in working capital	**641,498**	937,536
Increase in inventories	**(216,429)**	(149,244)
Increase in trade and bills receivables (Note)	**(515,409)**	(54,646)
Increase in deposits, prepayments and other receivables	**(25,828)**	(57,670)
(Decrease) increase in trade and bills payables	**(144,040)**	630,455
Increase in other payables and accruals	**92,017**	198,921
Increase in warranty provision	**5,563**	5,692
Cash (used in) generated from operations	**(162,628)**	1,511,044
Tax paid	**(107,608)**	(121,753)
Tax refunded	**8,151**	—
NET CASH (USED IN) FROM OPERATING ACTIVITIES (Note)	**(262,085)**	1,389,291
INVESTING ACTIVITIES		
Purchases of property, plant and equipment and deposits paid for acquisition of property, plant and equipment	**(593,048)**	(853,130)
Investment in an associate	**(560,250)**	—
(Increase) decrease in pledged bank deposits	**(37,225)**	57,133
Proceeds from disposal of property, plant and equipment	**250**	312
Purchases of prepaid lease payments	**—**	(49,903)
Purchases of investment securities	**—**	(20,000)
NET CASH USED IN INVESTING ACTIVITIES	**(1,190,273)**	(865,588)

Consolidated Cash Flow Statement

For the year ended 31st December, 2005

	2005 RMB'000	2004 RMB'000 (restated)
FINANCING ACTIVITIES		
Discounted bills with recourse raised (Note)	**1,140,700**	—
New bank borrowings raised	**634,241**	20,000
Capital contributions from minority shareholders	**60,900**	—
Repayments of bank borrowings and discounted bills with recourse	**(1,225,500)**	(151,720)
Dividends paid	**(103,950)**	(72,075)
Interest paid	**(30,843)**	(53,159)
Amount repaid to a related party	**(87,414)**	(67,409)
Share issue expenses	**—**	(66,381)
Proceeds from issue of shares	**—**	1,281,797
Amount advanced from a related party	**—**	21,245
NET CASH FROM FINANCING ACTIVITIES (Note)	**388,134**	912,298
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	**(1,064,224)**	1,436,001
CASH AND CASH EQUIVALENTS AT 1ST JANUARY	**1,774,220**	338,219
CASH AND CASH EQUIVALENTS AT 31ST DECEMBER, REPRESENTED BY BANK BALANCES AND CASH	**709,996**	1,774,220

Note: Consequent to the adoption of Hong Kong Accounting Standard 39 (HKAS 39), as disclosed in note 2 to the financial statements, bills discounted with full recourse have not been derecognised in the balance sheet. Consequently, cash flows from operating and financing activities are not comparable to the cash flows for the year ended 31st December, 2004 as HKAS 39 does not permit retrospective application. Had retrospective application been permitted and applied, the cash flows of the Group would have been as follows:

	2005 RMB'000	2004 RMB'000 (restated)
Net cash (used in) from operating activities, as reported	**(262,085)**	1,389,291
Add: Cash inflow (outflow) from bills discounted with recourse	**704,605**	(704,605)
	442,520	684,686
Net cash from financing activities, as reported	**388,134**	912,298
Add: Cash (outflow) inflow from bills discounted with recourse	**(704,605)**	704,605
	(316,471)	1,616,903

Notes to the Financial Statements

For the year ended 31st December, 2005

1. GENERAL

The Company was incorporated as a joint stock limited company with limited liability in the People's Republic of China (the "PRC") and its H shares are listed on the Stock Exchange of Hong Kong Limited (the "Stock Exchange") with effect from 11th March, 2004. The addresses of the registered office and principal place of business of the Company are disclosed in the corporate information section in the annual report.

The financial statements are presented in Renminbi, which is the functional currency of the Company.

The principal activities of the Company are the manufacture and sale of diesel engines and related parts. The principal activities of its associate and subsidiaries are set out in notes 20 and 37 respectively.

2. APPLICATION OF HONG KONG FINANCIAL REPORTING STANDARDS/CHANGES IN ACCOUNTING POLICIES

In the current year, the Group 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 (the "HKICPA") that are effective for accounting periods beginning on or after 1st January, 2005. The application of the new HKFRSs has resulted in a change in the presentation of the consolidated income statement, consolidated balance sheet and consolidated statement of changes in equity. The changes in presentation have been applied retrospectively. The adoption of the new HKFRSs has resulted in changes to the Group's accounting policies in the following areas that have an effect on how the results for the current and prior accounting years are prepared and presented:

Financial Instruments

In the current year, the Group 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 the recognition, derecognition or measurement of 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 Group has applied the relevant transitional provisions in HKAS 39 with respect to the classification and measurement of financial assets and financial liabilities that are within the scope of HKAS 39.

Notes to the Financial Statements

For the year ended 31st December, 2005

2. APPLICATION OF HONG KONG FINANCIAL REPORTING STANDARDS/CHANGES IN ACCOUNTING POLICIES (Continued)

Financial Instruments (Continued)

Prior to 31st December, 2004, the Group classified and measured its 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 profit or loss. Held-to-maturity investments are carried at amortised cost less impairment losses (if any). From 1st January, 2005 onwards, the Group has classified and measured its 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". "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. Available-for-sale equity investments that do not have quoted market prices in an active market and whose fair value cannot be reliably measured and derivatives that are linked to and must be settled by delivery of such unquoted equity instruments are measured at cost less impairment after initial recognition. "Loans and receivables" and "held-to-maturity financial assets" are measured at amortised cost using the effective interest method after initial recognition.

On 1st January, 2005, the Group classified and measured its equity securities in accordance with the transitional provisions 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 (see Note 2A for the financial impact).

Financial assets and financial liabilities other than debt and equity securities

From 1st January, 2005 onwards, the Group has classified and measured 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. Classification of financial assets are mentioned above. Financial liabilities are generally classified as "financial liabilities at fair value through profit or loss" or "other financial liabilities". Financial liabilities at fair value through profit or loss are measured at fair value, with changes in fair value being recognised in profit or loss directly. Other financial liabilities are carried at amortised cost using the effective interest method after initial recognition.

2. APPLICATION OF HONG KONG FINANCIAL REPORTING STANDARDS/CHANGES IN ACCOUNTING POLICIES (Continued)

Financial Instruments (Continued)

Financial assets and financial liabilities other than debt and equity securities (Continued)

Prior to the application of HKAS 39, an interest-free non-trade balance from a related party was stated at the nominal amount. HKAS 39 requires all financial assets and financial liabilities to be measured at fair value on initial recognition. Such interest-free non-trade balance is measured at amortised cost determined using the effective interest method at subsequent balance sheet dates. The Group has applied the relevant transitional provisions in HKAS 39. As a result of this change in the accounting policy, the carrying value of an amount due to a related party as at 1st January, 2005 was reduced by approximately RMB30,607,000 in order to state such amount at amortised cost in accordance with HKAS 39. Correspondingly, the Group's capital reserve as at 1st January, 2005 was increased by the same amount which represents the deemed capital contribution from the related party. Profit for the year was decreased by approximately RMB12,135,000 due to the recognition of imputed interest expense (see Note 2A for the financial impact).

Cost of equity transactions

Under HKAS 32, the Group 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 these transactions using a basis of allocation that is rational and consistent with similar transactions.

On applying HKAS 32, listing expenses of approximately RMB5,626,000 were reversed from share premium and accounted for as an expense item for the year ended 31st December, 2004 (see Note 2A for the financial impact).

Derecognition

HKAS 39 provides more rigorous criteria for the derecognition of financial assets than the criteria applied in previous periods. Under HKAS 39, a financial asset is derecognised, when and only when, either the contractual rights to the asset's cash flows expire, or the asset is transferred and the transfer qualifies for derecognition in accordance with HKAS 39. The decision as to whether a transfer qualifies for derecognition is made by applying a combination of risks and rewards and control tests. The Group has applied the relevant transitional provisions and applied the revised accounting policy prospectively to transfers of financial assets from 1st January, 2005 onwards. As a result, the Group's bill receivables discounted with full recourse which were derecognised prior to 1st January, 2005 have not been restated. As at 31st December, 2005, the Group's bills receivables discounted with full recourse have not been derecognised. Instead, the related borrowings of approximately RMB232,500,000 have been recognised on the balance sheet date. This change in accounting policy has had no material effect on results for the current year.

Notes to the Financial Statements

For the year ended 31st December, 2005

2. APPLICATION OF HONG KONG FINANCIAL REPORTING STANDARDS/CHANGES IN ACCOUNTING POLICIES (Continued)

Owner-occupied Leasehold Interest in Land

In previous years, owner-occupied leasehold land and buildings were included in property, plant and equipment and measured using the cost model. In the current year, the Group 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 2A for the financial impact).

2A. SUMMARY OF THE EFFECTS OF THE CHANGES IN ACCOUNTING POLICIES

The effects of the changes in the accounting policies described above on the results for the current and prior years are as follows:

	2005 **RMB'000**	2004 RMB'000
Increase in administrative expenses in respect of listing expenses	**—**	(5,626)
Increase in finance costs in respect of imputed interest on an amount due to a related party	**(12,135)**	—
Decrease in profit for the year	**(12,135)**	(5,626)

2A. SUMMARY OF THE EFFECTS OF THE CHANGES IN ACCOUNTING POLICIES (Continued)

The cumulative effects of the application of the new HKFRSs on 31st December, 2004 and 1st January, 2005 are summarised below:

	As at 31.12.2004 (originally stated) RMB'000	Adjustments RMB'000	As at 31.12.2004 (restated) RMB'000	Adjustments RMB'000	**As at 1.1.2005 (restated) RMB'000**
Balance sheet items					
Impact of HKAS 17:					
Property, plant and equipment	974,980	(63,047)	911,933	—	**911,933**
Prepaid lease payments — non-current portion	—	61,769	61,769	—	**61,769**
Prepaid lease payments — current portion	—	1,278	1,278	—	**1,278**
Impact of HKAS 32 and HKAS 39:					
Investment securities	20,000	—	20,000	(20,000)	**—**
Available-for-sale investments	—	—	—	20,000	**20,000**
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	(202,226)	—	(202,226)	19,508	**(182,718)**
Total effects on assets and liabilities	702,229	—	702,229	30,607	**732,836**
Share premium	1,100,416	5,626	1,106,042	—	**1,106,042**
Capital reserve	—	—	—	30,607	**30,607**
Retained profits	604,314	(5,626)	598,688	—	**598,688**
Total effects on equity	1,704,730	—	1,704,730	30,607	**1,735,337**

Notes to the Financial Statements

For the year ended 31st December, 2005

2A. SUMMARY OF THE EFFECTS OF THE CHANGES IN ACCOUNTING POLICIES (Continued)

The Group has not early applied the following new standards and interpretations that have been issued but are not yet effective. The Directors of the Company anticipate that the application of these Standards or Interpretations will have no material impact on the financial statements of the Group.

HKAS 1 (Amendment)	Capital disclosures[1]
HKAS 19 (Amendment)	Actuarial gains and losses, group plans and disclosures[2]
HKAS 21 (Amendment)	Net investment in a foreign operation[2]
HKAS 39 (Amendment)	Cash flow hedge accounting of forecast intragroup transactions[2]
HKAS 39 (Amendment)	The fair value option[2]
HKAS 39 & HKFRS 4 (Amendments)	Financial guarantee contracts[2]
HKFRS 6	Exploration for and evaluation of mineral resources[2]
HKFRS 7	Financial instruments: Disclosures[1]
HK(IFRIC) — INT 4	Determining whether an arrangement contains a lease[2]
HK(IFRIC) — INT 5	Rights to interests arising from decommissioning, restoration and environmental rehabilitation funds[2]
HK(IFRIC) — INT 6	Liabilities arising from participating in a specific market-waste electrical and electronic equipment[3]
HK(IFRIC) — INT 7	Applying the restatement approach under HKAS 29 Financial Reporting in Hyperinflationary Economies[4]

1 Effective for annual periods beginning on or after 1st January, 2007.

2 Effective for annual periods beginning on or after 1st January, 2006.

3 Effective for annual periods beginning on or after 1st December, 2005.

4 Effective for annual periods beginning on or after 1st March, 2006.

3. CHANGES OF ACCOUNTING ESTIMATES

In previous years, intangible assets were amortised over their estimated useful lives of 4.5 years to 8 years. HKAS 38 requires intangible assets to be assessed at the individual asset level as having either finite or indefinite life. A finite-life intangible asset is amortised over its estimated useful life whereas an intangible asset with an indefinite useful life is carried at cost less accumulated impairment losses (if any). Intangible assets with indefinite lives are not subject to amortisation but are tested for impairment annually or more frequently when there are indications of impairment. In accordance with the transitional provisions in HKAS 38, the Group reassessed the useful lives of its intangible assets on 1st January, 2005 and concluded that certain intangible assets with a total carrying amount of RMB108,892,000 recognised under the predecessor accounting standard have indefinite useful lives. The Group has applied the revised useful lives prospectively and discontinued amortising intangible assets with indefinite useful lives from 1st January, 2005 onwards. No amortisation has been charged in relation to intangible assets with indefinite useful lives for the year ended 31st December, 2005. As a result, the profit for the year has been increased by approximately RMB15,556,000. Comparative figures for 2004 have not been restated.

4. SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements have been prepared on the historical cost basis as explained in the accounting policies set out below.

The consolidated financial statements have been prepared in accordance with HKFRSs issued by the HKICPA. In addition, the consolidated financial statements include applicable disclosures required by the Rules Governing the Listing of Securities on the Stock Exchange and by the Hong Kong Companies Ordinance.

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and its subsidiaries.

The results of subsidiaries acquired or disposed of during the year are included in the consolidated income statement from the effective date of acquisition or up to the effective date of disposal, as appropriate.

Where necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with those used by other members of the Group.

All intra-group transactions, balances, income and expenses are eliminated on consolidation.

Minority interests in the net assets of consolidated subsidiaries are presented separately from the Group's equity therein. Minority interests in the net assets consist of the amount of those interests at the date of the original business combination and the minority's share of changes in equity since the date of the combination. Losses applicable to the minority in excess of the minority's interest in the subsidiary's equity are allocated against the interests of the Group except to the extent that the minority has a binding obligation and is able to make an additional investment to cover the losses.

Notes to the Financial Statements

For the year ended 31st December, 2005

4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Interest in an associate

The results and assets and liabilities of associates are incorporated in these financial statements using the equity method of accounting. Under the equity method, investments in associates are carried in the consolidated balance sheet at cost as adjusted for post-acquisition changes in the Group's share of the profit or loss and of changes in equity of the associate, less any identified impairment loss. When the Group's share of losses of an associate equals or exceeds its interest in that associate (which includes any long-term interests that, in substance, form part of the Group's net investment in the associate), the Group discontinues recognising its share of further losses. An additional share of losses is provided for and a liability is recognised only to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of that associate.

Where a group entity transacts with an associate of the Group, profits and losses are eliminated to the extent of the Group's interest in the relevant associate.

Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable and represents amount receivable for goods and services provided in the normal course of business, net of discounts and sales related taxes.

Sales of goods are recognised when goods are delivered and title has passed.

Income from repairs are recognised when services are provided.

Interest income from a financial asset is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts the estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount.

Property, plant and equipment

Property, plant and equipment other than construction in progress are stated at cost less subsequent accumulated depreciation and accumulated impairment losses.

Construction in progress is carried at cost, less any identified impairment loss.

Depreciation is provided to write off the cost of items of property, plant and equipment other than construction in progress over their estimated useful lives and after taking into account of their estimated residual value, using the straight-line method.

4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Property, plant and equipment (Continued)

No depreciation is provided for construction in progress until the construction is completed and the properties and assets are ready for their intended use.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the item) is included in the income statement in the year in which the item is derecognised.

Leasing

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the leasee. All other leases are classified as operating leases.

Rentals payable under operating leases are charged to profit or loss on a straight-line basis over the term of the relevant lease. Benefits received and receivable as an incentive to enter into an operating lease are recognised as a reduction of rental expense over the lease term on a straight-line basis.

Borrowing costs

All borrowing costs are recognised as and included in finance costs in the income statement in the period in which they are incurred.

Foreign currencies

In preparing the financial statements of each individual group entity, transactions in currencies other than the functional currency of that entity (foreign currencies) are recorded in its functional currency (i.e. the currency of the primary economic environment in which the entity operates) at the rates of exchanges prevailing on the dates of the transactions. At each balance sheet date, monetary items denominated in foreign currencies are retranslated at the rates prevailing on the balance sheet date.

Exchange differences arising on the settlement of monetary items, and on the translation of monetary items, are recognised in profit or loss in the period in which they arise.

Retirement benefit costs

Payments to the defined contribution retirement benefit plans are charged as expenses as they fall due.

Notes to the Financial Statements

For the year ended 31st December, 2005

4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Retirement benefit costs (Continued)

Payments made to state-managed retirement benefit schemes are dealt with as payments to defined contribution plans where the Company's obligations under the schemes are equivalent to those arising in a defined contribution retirement benefit plan.

Taxation

Income tax expense represents the sum of the tax currently payable and deferred tax.

The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit as reported in the income statement because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the balance sheet date.

Deferred tax is recognised on differences between the carrying amounts of assets and liabilities in the consolidated financial statements and the corresponding tax base used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realised based on the tax rates that have been enacted or substantively enacted by the balance sheet date. Deferred tax is charged or credited to profit or loss, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity.

Intangible assets

On initial recognition, intangible assets acquired separately are recognised at cost. After initial recognition, intangible assets with finite useful lives are carried at costs less accumulated amortisation and any accumulated impairment losses. Amortisation for intangible assets with finite useful lives is provided on a straight-line basis over their estimated useful lives. Alternatively, intangible assets with indefinite useful lives are carried at cost less any subsequent accumulated impairment losses.

4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Intangible assets (Continued)

Gain or losses arising from derecognition of an intangible asset are measured at the difference between the net disposal proceeds and the carrying amount of the asset and are recognised in the income statement when the asset is derecognised.

Intangible assets with indefinite useful lives and intangible assets not yet available for use are tested for impairment annually by comparing their carrying amounts with their recoverable amounts, irrespective of whether there is any indication that they may be impaired. If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. An impairment loss is recognised as an expense immediately.

When an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior years.

Intangible assets with finite useful lives are also tested for impairment when there is an indication that an asset may be impaired (see the accounting policies in respect of impairment losses for tangible and intangible assets below).

Research and development expenditures

Expenditure on research activities is recognised as an expense in the period in which it is incurred.

An internally-generated intangible asset arising from development expenditure is recognised only if it is anticipated that the development costs incurred on a clearly-defined project will be recovered through future commercial activity. The resultant asset is amortised on a straight-line basis over its useful life, and carried at cost less subsequent accumulated amortisation and any accumulated impairment losses.

Where no internally-generated intangible asset can be recognised, development expenditure is charged to profit or loss in the period in which it is incurred.

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost comprises direct materials, direct labour costs and those overheads that have been incurred in bringing the inventories to their present location and condition. Cost is calculated using the weighted average method. Net realisable value represents the estimated selling price less all estimated costs of completion and costs to be incurred in marketing, selling and distribution.

Notes to the Financial Statements

For the year ended 31st December, 2005

4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial instruments

Financial assets and financial liabilities are recognised on the balance sheet when a group entity becomes a party to the contractual provisions of the instrument. Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognised immediately in profit or loss.

Financial assets

The Group's financial assets are classified into one of the two categories, including loans and receivables and available-for-sale financial assets. All regular way purchases or sales of financial assets are recognised and derecognised on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace. The accounting policies adopted in respect of financial assets are set out below.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. At each balance sheet date subsequent to initial recognition, loans and receivables (including trade and bills receivables, deposits, other receivables, pledged deposits and bank balances) are carried at amortised cost using the effective interest method, less any identified impairment losses. An impairment loss is recognised in profit or loss when there is objective evidence that the asset is impaired, and is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the original effective interest rate. Impairment losses are reversed in subsequent periods when an increase in the asset's recoverable amount can be related objectively to an event occurring after the impairment was recognised, subject to a restriction that the carrying amount of the asset at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

Available-for-sale financial assets

Available-for-sale financial assets are non-derivatives that are either designated or not classified as any of the other categories.

4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial instruments (Continued)

Available-for-sale financial assets (Continued)

For available-for-sale equity investments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured and derivatives that are linked to and must be settled by delivery of such unquoted equity instruments, they are measured at cost less any identified impairment losses at each balance sheet date subsequent to initial recognition. An impairment loss is recognised in profit or loss when there is objective evidence that the asset is impaired. The amount of the impairment loss is measured as the difference between the carrying amount of the asset and the present value of the estimated future cash flows discounted at the current market rate of return for a similar financial asset. Such impairment losses will not reverse in subsequent periods.

Financial liabilities and equity

Financial liabilities and equity instruments issued by a group entity are classified according to the substance of the contractual arrangements entered into and the definitions of a financial liability and an equity instrument.

An equity instrument is any contract that evidences a residual interest in the assets of the group after deducting all of its liabilities. The Group's financial liabilities are generally classified into financial liabilities at fair value through profit or loss and other financial liabilities. The accounting policies adopted in respect of financial liabilities and equity instruments are set out below.

Other financial liabilities

Other financial liabilities including trade and bills payables, other payables, amount due to a related party and unsecured bank borrowings are subsequently measured at amortised cost, using the effective interest rate method.

Equity instruments

Equity instruments issued by the Company are recorded at the proceeds received, net of direct issue costs.

Notes to the Financial Statements

For the year ended 31st December, 2005

4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial instruments (Continued)

Derecognition

Financial assets are derecognised when the rights to receive cash flows from the assets expire or, the financial assets are transferred and the Group has transferred substantially all the risks and rewards of ownership of the financial assets. On derecognition of a financial asset, the difference between the asset's carrying amount and the sum of the consideration received and the cumulative gain or loss that had been recognised directly in equity is recognised in profit or loss.

For financial liabilities, they are removed from the Group's balance sheet (i.e. when the obligation specified in the relevant contract is discharged, cancelled or expires). The difference between the carrying amount of the financial liability derecognised and the consideration paid is recognised in profit or loss.

Provisions

Provisions are recognised when the Group has a present obligation as a result of a past event, and it is probable that the Group will be required to settle that obligation. Provisions are measured at the Directors' best estimate of the expenditure required to settle the obligation at the balance sheet date, and are discounted to present value where the effect is material.

Impairment loss

At each balance sheet date, the Group reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. An impairment loss is recognised as an expense immediately.

Where an impairment loss is subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior years. A reversal of an impairment loss is recognised as income immediately.

5. KEY SOURCES OF ESTIMATION UNCERTAINTY

The key assumptions concerning the future, and other key sources of estimation uncertainty at the balance sheet date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are discussed below.

Impairment on trade receivables

The Group performs ongoing credit evaluations of its customers and adjusts credit limit based on payment history and customers' current credit-worthiness, as determined by the review of their current credit information. The Group continuously monitors collections and payments from its customers and maintains an impairment for estimated credit losses based upon its historical experience and any specific collection issues that it has identified. While such credit losses have historically been within the Group's expectations and the impairment established, there is no guarantee that it will continue to experience the same credit loss that it has had in the past.

Impairment on intangible assets

During the year, the management reassessed the carrying amount of its intangible assets. This process requires managements estimate of future cash flows generated by its intangible assets. For any instance where the evaluation process indicates impairment, the appropriate asset's carrying value are written down to the recoverable amount and the amount of the write down is charged against the results of operations.

Intangible assets with finite useful lives

The Group's net book value of intangible assets with finite useful lives as at 31st December, 2005 was RMB93,334,000. The Group amortises these intangible assets on a straight-line basis over the estimated useful lives of 4.5 years. The estimated useful lives reflect the Directors' estimate of the periods that the Group intends to derive future economic benefits from the use of the Group's intangible assets.

Warranty expenses

The Group offers a six-month to one-year warranty for its products, during which free warranty service for the repair and maintenance of parts or components under normal usage is provided to the customers. Warranty expenses are acquired with reference to historical cost data for repairs and maintenance, and units of products sold.

Notes to the Financial Statements

For the year ended 31st December, 2005

6. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's major financial instruments include trade and bills receivables, deposits, other receivables, pledged deposits, bank balances and cash, trade and bills payables, other payables, borrowings, discounted bills with recourse and amount due to a related party. Details of these financial instruments are disclosed in respective notes. The risks associated with these financial instruments and the policies on how to mitigate these risks are set out below. The management manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

Currency risk

The Group has foreign currency purchases, which expose the Group to foreign currency risk. Certain trade payables of the Group are denominated in foreign currencies. The Group currently does not have a foreign currency hedging policy. However, the management monitors foreign exchange exposure and will consider hedging significant foreign currency exposure should the need arises.

Credit risk

The Group's maximum exposure to credit risk in the event of the counterparties failure to perform their obligations as at 31st December, 2005 in relation to each class of recognised financial assets is the carrying amount of those assets as stated in the consolidated balance sheet. In order to minimise the credit risk, the management of the Group has delegated a team responsible for determination of credit limits, credit approvals and other monitoring procedures to ensure that follow-up action is taken to recover overdue debts. In addition, the Group reviews the recoverable amount of each individual trade debt at each balance sheet date to ensure that adequate impairment losses are made for irrecoverable amounts. In this regard, the Directors of the Company consider that the Group's credit risk is significantly reduced.

The Group has a number of counterparties and customers, however, credit risk of the Group is concentrated on certain major customers. The management considers the strong financial background and good creditability of these customers, and there is no significant credit risk.

Interest rate risk

The Group is exposed to interest rate risk through the impact of rate changes on interest bearing bank borrowings. The Group currently does not have any interest rate hedging policy. The interest rates and terms of repayment of bank borrowings of the Group are disclosed in note 28.

6. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

Commodity price risk

The Group is exposed to the commodity price risk such as steel and metal (major components of the Group's raw materials). The Group currently does not have any commodity futures to hedge the price risk exposure of its raw material purchases.

7. BUSINESS AND GEOGRAPHICAL SEGMENTS

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

8. OTHER INCOME

	2005	2004
	RMB'000	RMB'000
Other income includes:		
Gain on sale of scrap and other materials	**32,402**	29,549
Sales and warranty period repair services fee income	**21,025**	13,454
Bank interest income	**10,246**	18,592
Others	**6,290**	3,342
	69,963	64,937

9. FINANCE COSTS

	2005	2004
	RMB'000	RMB'000
Interest on:		
Bank borrowings wholly repayable within five years	**30,843**	53,159
Imputed interest expense on amount due to a related party	**12,135**	—
	42,978	53,159

Notes to the Financial Statements

For the year ended 31st December, 2005

10. INCOME TAX EXPENSE

	2005 RMB'000	2004 RMB'000
PRC Enterprise Income Tax:		
Current year	**106,379**	269,371
Overprovision in prior year	**(203)**	(240)
Tax credit	**(10,407)**	(63,647)
	95,769	205,484
Deferred tax (note 31)	**(1,850)**	—
	93,919	205,484

PRC Enterprise Income Tax is calculated at the statutory income tax rate of 33% (2004: 33%) of the assessable profit of the Group, except on assessable profit derived from the production in the high technology development zone, which is taxed at a preferential rate of 15% since current financial year pursuant to the Notice of 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 proper implementation of the continuing administrative work after the cancellation 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》).

Pursuant to the notice issued by Jiang Jing Municipal Tax Bureau, the Company's Chongqing branch is also subject to PRC Enterprise Income Tax at a preferential rate of 15% (2004: 15%).

The Company's Hong Kong branch is subject to Hong Kong Profits Tax at 17.5% (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 year.

Pursuant to the notices issued by Weifang Municipal Tax Bureau and Chongqing Municipal Tax Bureau, the Group is entitled to a total income tax credit of approximately RMB10,407,000 (2004: RMB63,647,000) in respect of eligible additions of domestic machinery and equipment for production use.

10. INCOME TAX EXPENSE (Continued)

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

	2005 RMB'000	2004 RMB'000
Profit before tax	**410,602**	738,738
Tax at PRC Enterprise Income Tax rate of 33% (2004: 33%)	**135,499**	243,784
Tax effect of share of results of an associate	**(311)**	—
Tax effect of expenses not deductible for tax purpose	**11,310**	41,556
Tax effect of concessionary tax rate for the Company's operation in high technology development zone	**(26,803)**	—
Effect of different tax rate for the Company's Chongqing branch	**(15,166)**	(15,969)
Overprovision in prior year	**(203)**	(240)
Tax credit	**(10,407)**	(63,647)
	93,919	205,484

11. PROFIT FOR THE YEAR

	2005 RMB'000	2004 RMB'000
Profit for the year has been arrived at after charging (crediting):		
Depreciation of property, plant and equipment	**109,597**	53,835
Amortisation of prepaid lease payments (included in administrative expenses)	**1,278**	699
Amortisation of technologies (included in administrative expenses)	**62,223**	62,223
Amortisation of trademarks (included in distribution expenses)	**—**	10,372
Auditors' remuneration	**3,000**	3,000
Impairment loss on trade receivables	**15,272**	17,244
Cost of inventories recognised as expense	**4,096,408**	4,651,073
Transportation costs for the products sold (included in distribution expenses)	**29,657**	36,744
Directors' and Supervisors' emoluments (note 12)	**3,874**	5,438
Staff costs excluding Directors' and Supervisors' emoluments	**220,959**	241,373
Retirement benefits scheme contributions excluding amounts included in Directors' and Supervisors' emoluments	**27,328**	25,232
Share of tax of an associate (included in share of results of an associate)	**(311)**	—
Loss on disposal of property, plant and equipment	**489**	1,266

Staff costs disclosed above do not include an amount of approximately RMB16,036,000 (2004: RMB13,832,000) relating to research and development activities, which is included under research and development expenses.

Notes to the Financial Statements

For the year ended 31st December, 2005

12. DIRECTORS' EMOLUMENTS AND EMPLOYEES' EMOLUMENTS

The remuneration paid or payable to each of the 16 (2004: 16) Directors and 3 (2004: 3) Supervisors were as follows:

2005

	Tan Xuguang RMB'000	Xu Xinyu RMB'000	Sun Shaojun RMB'000	Zhang Quan RMB'000	Yeung Sai Hong RMB'000	Chen Xue Jian RMB'000	Yao Yu RMB'000	Li San Yim RMB'000	Tong Jingen RMB'000	Zhang Fusheng RMB'000	Julius G. Kiss RMB'000	Han Xiaoqun RMB'000	Feng Gang RMB'000	Koo Fook Sun, Louis RMB'000	Zhang Xiaoyu RMB'000	Fang Zhong Chang RMB'000	Sun Chengping RMB'000	Wang Yong RMB'000	Jiang Jianfang RMB'000	Total RMB'000
Fees	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—
Other emoluments																				
Salaries and other benefits	380	250	250	250	50	50	50	50	50	50	50	2	48	146	100	100	50	60	50	2,036
Retirement benefits scheme contribution	76	50	50	50	—	—	—	—	—	—	—	—	—	—	—	—	—	12	—	238
Performance related incentive payments	500	300	300	300	—	—	—	—	—	—	—	—	—	—	—	—	—	200	—	1,600
Total emoluments	956	600	600	600	50	50	50	50	50	50	50	2	48	146	100	100	50	272	50	3,874

2004

	Tan Xuguang RMB'000	Xu Xinyu RMB'000	Sun Shaojun RMB'000	Zhang Quan RMB'000	Yeung Sai Hong RMB'000	Liu Zheng RMB'000	Chen Xue Jian RMB'000	Yao Yu RMB'000	Li San Yim RMB'000	Tong Jingen RMB'000	Zhang Fusheng RMB'000	Julius G. Kiss RMB'000	Feng Gang RMB'000	Koo Fook Sun, Louis RMB'000	Zhang Xiaoyu RMB'000	Fang Zhong Chang RMB'000	Sun Chengping RMB'000	Wang Yong RMB'000	Jiang Jianfang RMB'000	Total RMB'000
Fees	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—
Other emoluments																				
Salaries and other benefits	380	250	250	250	50	25	25	50	50	50	50	50	50	146	100	4	50	60	50	1,940
Retirement benefits scheme contribution	76	50	50	50	—	—	—	—	—	—	—	—	—	—	—	—	—	12	—	238
Performance related incentive payments	1,560	300	300	300	—	—	—	—	—	—	300	—	—	—	—	—	300	200	—	3,260
Total emoluments	2,016	600	600	600	50	25	25	50	50	50	350	50	50	146	100	4	350	272	50	5,438

Note: The performance related incentive payment is determined as a percentage of the Group's profit for the two years ended 31st December, 2005.

13. EMPLOYEES' EMOLUMENTS

Of the five individuals with the highest emoluments in the Group, four (2004: four) were Executive Directors of the Company whose emoluments are included in the disclosures in note 12 above. The emoluments of the remaining one (2004: one) individual was as follows:

	2005 RMB'000	2004 RMB'000
Salaries and allowances	**1,352**	1,525
Retirement benefits scheme contributions	**12**	3
	1,364	1,528

No emoluments were paid by the Group to the Directors, Supervisors or the five highest paid individuals as an inducement to join or upon joining the Group or as a compensation for loss of office. None of the Directors nor any of the Supervisors waived any emoluments for either 2004 or 2005.

14. DIVIDENDS

	2005 RMB'000	2004 RMB'000
Final, paid — 2004: RMB0.15 (2003: RMB0.105) per share	**49,500**	22,575
Interim, paid — 2005: RMB0.165 (2004: RMB0.15) per share	**54,450**	49,500
	103,950	72,075

A final dividend of RMB0.165 for the year ended 31st December, 2005 (2004: RMB0.15 per share which was declared on 27th May, 2005) per share has been proposed by the Directors and is subject to approval by the shareholders in the annual general meeting to be held on 30th June, 2006.

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For the year ended 31st December, 2005

15. BASIC EARNINGS PER SHARE

The calculation of basic earnings per share is based on the profit for the year attributable to equity holders of parent of approximately RMB315,203,000 (2004: RMB533,254,000 as restated) and on the number of 330,000,000 (2004: average number of 308,005,000) ordinary shares in issue during the year.

The following table summarises the impact on basic earnings per share as a result of:

	Impact on basic earnings per share	
	2005	2004
	RMB	RMB
Reported figures before adjustments	**1.00**	1.75
Adjustments arising from the changes in accounting policies	**(0.04)**	(0.02)
Restated	**0.96**	1.73

16. PROPERTY, PLANT AND EQUIPMENT

	Construction in progress RMB'000	Buildings RMB'000	Plant and machinery RMB'000	Computer, equipment and fixtures RMB'000	Motor vehicles RMB'000	Total RMB'000
COST						
At 1st January, 2004						
— As originally stated	148,114	54,971	181,929	15,572	15,660	416,246
— Reclassified to prepaid lease payments	—	(14,003)	—	—	—	(14,003)
— As restated	148,114	40,968	181,929	15,572	15,660	402,243
Additions	593,754	—	75	9,563	2,366	605,758
Transfer	(268,073)	34,182	208,548	8,889	16,454	—
Disposals	—	—	(1,661)	(388)	(49)	(2,098)
At 31st December, 2004	473,795	75,150	388,891	33,636	34,431	1,005,903
Additions	801,634	—	148	4,849	612	807,243
Transfer	(967,196)	276,724	622,223	30,155	38,094	—
Disposals	—	—	(1,086)	(109)	(274)	(1,469)
At 31st December, 2005	308,233	351,874	1,010,176	68,531	72,863	1,811,677
DEPRECIATION						
At 1st January, 2004						
— As originally stated	—	4,825	29,163	3,845	2,982	40,815
— Reclassified to prepaid lease payments	—	(160)	—	—	—	(160)
— As restated	—	4,665	29,163	3,845	2,982	40,655
Charged for the year	—	3,739	40,367	4,876	4,853	53,835
Eliminated on disposals	—	—	(387)	(117)	(16)	(520)
At 31st December, 2004	—	8,404	69,143	8,604	7,819	93,970
Charged for the year	—	12,462	77,860	9,247	10,028	109,597
Eliminated on disposals	—	—	(505)	(79)	(146)	(730)
At 31st December, 2005	—	20,866	146,498	17,772	17,701	202,837
CARRYING VALUE						
At 31st December, 2005	308,233	331,008	863,678	50,759	55,162	1,608,840
At 31st December, 2004 (restated)	473,795	66,746	319,748	25,032	26,612	911,933

Notes to the Financial Statements

For the year ended 31st December, 2005

16. PROPERTY, PLANT AND EQUIPMENT (Continued)

Depreciation is provided to write off the cost of property, plant and equipment other than construction in progress over their estimated useful lives and after taking into account of their estimated residual value, using the straight-line method at the following rates per annum:

Buildings	20 years
Plant and machinery	5 to 10 years
Computer, equipment and fixtures	5 years
Motor vehicles	5 years

All buildings are situated in the PRC on land under operating leases with medium-term.

17. PREPAID LEASE PAYMENTS

The Group's prepaid lease payments represented land use rights in the PRC held under medium-term lease.

	2005	2004
	RMB'000	RMB'000
Analysed for reporting purposes as:		
Current	**1,278**	1,278
Non-current	**60,491**	61,769
	61,769	63,047

18. INTANGIBLE ASSETS

	Trademarks RMB'000 *(Note i)*	Technologies RMB'000 *(Note ii)*	Total RMB'000
COST			
At 1st January, 2004	—	222,965	222,965
Acquired from China Heavy Duty Truck Group *(Note iii)*	119,264	—	119,264
At 31st December, 2004 and 31st December, 2005	119,264	222,965	342,229
AMORTISATION			
At 1st January, 2004	—	5,185	5,185
Charge for the year	10,372	62,223	72,595
At 31st December, 2004	10,372	67,408	77,780
Charge for the year	—	62,223	62,223
At 31st December, 2005	10,372	129,631	140,003
CARRYING VALUE			
At 31st December, 2005	108,892	93,334	202,226
At 31st December, 2004	108,892	155,557	264,449

Notes:

(i) The trademarks have a legal life up to 2012 but are renewable every 10 years at minimal cost. The Directors of the Company are of the opinion that the Group would renew the trademarks continuously and has the ability to do so.

As a result, the trademarks are considered by the management of the Group as having an indefinite useful life because it is expected to contribute to net cash inflows indefinitely. The trademarks will not be amortised until its useful life is determined to be finite. Instead it will be tested for impairment annually and whenever there is an indication that it may be impaired. Particulars of the impairment testing are disclosed in Note 19.

(ii) Technologies are amortised on a straight-line basis over 4.5 years.

(iii) China Heavy Duty Truck Group Co., Ltd. ("CHDTGL") was the holding company of a substantial shareholder in the Company. CHDTGL and its affiliates other than the Group are collectively referred as China Heavy Duty Truck Group.

Notes to the Financial Statements

For the year ended 31st December, 2005

19. IMPAIRMENT TESTING ON TRADEMARKS WITH INDEFINITE USEFUL LIVES

As explained in Note 7, the Group was principally engaged in the business of manufacture and sale of diesel engines and related parts, which is the Group's only cash generating unit (CGU). For the purposes of impairment testing, the carrying amounts of trademarks as at 31st December, 2005 are fully allocated to this unit.

During the year ended 31st December, 2005, management of the Group determines that there is no impairment of its CGU containing trademarks with indefinite useful lives.

The recoverable amount of the CGU is determined based on a value in use calculation. The key assumptions for the value in use calculation is those regarding the discount rates, growth rates and expected changes to selling prices and direct costs during the period. Management estimates discount rates using pre-tax rates that reflect current market assessments of the time value of money and the risks specific to the CGU. The growth rates are based on industry growth forecasts. Changes in selling prices and direct costs are based on past practices and expectations of future changes in the market.

The Group prepares cash flow forecasts derived from the most recent financial budgets approved by management for the next five years and extrapolates cash flows for the following five years based on an estimated growth rate of 10% to 18%. This rate does not exceed the average long-term growth rate for the relevant markets. The rate used to discount the forecast cash flows is 6.8%. Management believes that any reasonably possible change in any of these assumptions would not cause the aggregate carrying amount of the CGU to exceed the aggregate recoverable amount of the CGU.

20. INTEREST IN AN ASSOCIATE

	2005 **RMB'000**	2004 RMB'000
Cost of investment in an unlisted associate	**560,250**	—
Share of post-acquisition profit	**941**	—
	561,191	—

20. INTEREST IN AN ASSOCIATE (Continued)

As at 31st December, 2005, the Group had an interest in the following associate:

Name of entity	Form of business structure	Country of registration/ Principal place of operation	Paid up registered capital *RMB*	Proportion of registered capital held by the Group	Principal activity
濰柴動力（濰坊）投資有限公司	Incorporated	The PRC	1,245,000,000	45%	Investment holding in 28.12% equity interest in Torch Automobile Group Co., Ltd. (湘火炬汽車集團股份有限公司) which is principally engaged in the manufacture and sale of heavy duty trucks and vehicle parts

The summarised financial information in respect of the Group's associate is set out below:

	2005 **RMB'000**	2004 RMB'000
Total assets	**1,247,714**	—
Total liabilities	**(623)**	—
Net assets	**1,247,091**	—
Group's share of net assets of associate	**561,191**	—
Revenue	**4,052**	—
Profit for the year	**2,091**	—
Group's share of result of associate for the year	**941**	—

Notes to the Financial Statements

For the year ended 31st December, 2005

21. AVAILABLE-FOR-SALE FINANCIAL ASSETS

Available-for-sale financial assets as at 31st December, 2005 represented an investment in 5.71% of the registered capital of 山東福田重工股份有限公司 ("山東福田"), a private entity established in the PRC. As the range of reasonable fair value estimates is significant and the probabilities of the various estimates cannot be reasonably assessed, the Directors of the Company are of the opinion that the instruments shall be measured at cost less impairment at each balance sheet date.

22. INVESTMENT SECURITIES

Investment securities as at 31st December, 2004 represented an investment in 5.71% of the registered capital of 山東福田. Upon the application of HKAS 39 on 1st January, 2005, investment securities were reclassified to available-for-sale financial assets under HKAS 39 (see Note 2 for details).

23. DEPOSITS PAID FOR ACQUISITION OF PROPERTY, PLANT AND EQUIPMENT

As at 31st December, 2005, the amount represented the deposits paid to certain vendors for the acquisition of property, plant and equipment. Details of the related capital commitments are set out in note 32.

Included in the balance was a refundable deposit of RMB80,000,000 paid to CHDTGL in relation to a framework agreement dated 27th September, 2004 for the Group to acquire certain assets of Hangzhou Motor Engine Factory, a wholly-owned subsidiary of CHDTGL. While the framework agreement expired on 31st December, 2005, in the opinion of the Directors, efforts and negotiation will continue to be made with a view to enforce completion of the agreement. Accordingly, the deposit continues to be presented as non-current at the balance sheet date.

24. INVENTORIES

	2005 **RMB'000**	2004 RMB'000
Raw materials and consumables	**340,362**	164,498
Work-in-progress	**81,041**	26,175
Finished goods	**224,175**	238,476
	645,578	429,149

25. OTHER FINANCIAL ASSETS

Trade and bills receivables

	2005	2004
	RMB'000	RMB'000
Third party customers	**151,850**	317,550
Related party customers	**251,128**	197,386
Less: accumulated impairment	**(42,584)**	(27,312)
	360,394	487,624
Bills receivable	**801,655**	174,288
	1,162,049	661,912

The credit terms granted by the Group to its customers are normally in the range from 30 days to 180 days. However, customers with established trading records could be granted longer credit period. The following is an aged analysis of trade and bills receivables net of impairment losses as at the balance sheet date:

	2005	2004
	RMB'000	RMB'000
Within 90 days	**974,679**	521,199
Between 91 to 180 days	**180,522**	124,953
Between 181 to 365 days	**2,916**	4,146
Over 365 days	**3,932**	11,614
	1,162,049	661,912

The related party customers represented China Heavy Duty Truck Group, Fujian Longgong and Guangxi Liugong. At 31st December, 2005, the related party customers also included 湘火炬汽車集團股份有限公司 and its affiliates.

Details of the relationship with Fujian Longgong and Guangxi Liugong are set out in note 36(a).

The bills are non-interest bearing and have a maturity of six months.

Notes to the Financial Statements

For the year ended 31st December, 2005

25. OTHER FINANCIAL ASSETS (Continued)

The fair value of the Group's trade and bills receivables, deposits and other receivables at 31st December, 2005 approximates carrying amounts.

Bank balances and cash

Bank balances and cash, which carry prevailing market interest rates, comprise cash held by the Group and short-term bank deposits with an original maturity of three months or less. The carrying amounts of these assets approximated their fair value at the balance sheet date.

26. PLEDGE OF ASSETS

At 31st December, 2005, bank deposits of approximately RMB371,670,000 (2004: RMB334,445,000) were pledged to banks to secure bills payable issued and bills receivables discounted by the Group.

At 31st December, 2004, bills receivable of approximately RMB119,876,000 were pledged to banks to secure bills payable issued by the Group.

The pledged bank deposits carry prevailing bank interest rates. The pledge will be released upon the settlement of the relevant bank borrowings. The fair value of the bank deposits at 31st December, 2005 approximates carrying amounts.

27. OTHER FINANCIAL LIABILITIES

Trade and bills payables

	2005 RMB'000	2004 RMB'000
Third party suppliers	**1,184,615**	1,212,276
Related party suppliers	**75,411**	42,466
	1,260,026	1,254,742
Bills payable	**551,480**	700,804
	1,811,506	1,955,546

An analysis of trade and bills payables as at the balance sheet date is as follows:

Within 90 days	**1,312,896**	1,294,745
Between 91 to 180 days	**439,327**	644,684
Between 181 to 365 days	**13,123**	10,044
Over 365 days	**46,160**	6,073
	1,811,506	1,955,546

Related party suppliers represented China Heavy Duty Truck Group.

The bills are non-interest bearing and have a maturity of six months.

The fair value of the Group's trade and bills payables and other payables at 31st December, 2005 approximates carrying amounts.

Notes to the Financial Statements

For the year ended 31st December, 2005

28. UNSECURED BANK BORROWINGS

	2005 RMB'000	2004 RMB'000
Unsecured bank borrowings	**334,241**	20,000
The maturity profile of the above bank borrowings is as follows:		
On demand or within one year	**44,241**	20,000
More than one year, but not exceeding two years	**240,000**	—
More than two years, but not exceeding five years	**50,000**	—
	334,241	20,000
Less: Amounts due within one year shown under current liabilities	**(44,241)**	(20,000)
	290,000	—

Unsecured bank borrowings include approximately RMB310,000,000 (2004: RMB20,000,000) fixed-rate borrowings which carry interest ranging from 5.6% to 5.8% (2004: at 5.1%). The remaining unsecured bank borrowings of approximately USD3,000,000 (equivalent to approximately RMB24,241,000) (2004: Nil) are denominated in currencies other the functional currencies of the relevant group entities. These borrowings are variable-rate borrowings which carry interest at 1.2% over London Interbank Offered Rate.

During the year, the Group obtained new loans in the amount of RMB634,241,000. The loans bear fixed interest at a range from 5.6% to 5.8% and will be repayable within three years.

The fair value of the Group's bank borrowings approximates to the corresponding carrying amount calculated by discounting the future cash flows at the prevailing market borrowing rate for similar borrowings at the balance sheet date.

As at the balance sheet date, the Group had undrawn borrowing facilities with floating rate expiring within one year amounting to approximately USD7,000,000 (2004: Nil).

29. WARRANTY PROVISION

	RMB'000
At 1st January, 2005	12,996
Additional provision in the year	195,851
Utilisation of provision	(190,288)
At 31st December, 2005	18,559

The warranty provision represents management's best estimate of the Group's liability under six-month to one-year warranty granted on products, based on past experience for defective products.

30. SHARE CAPITAL

	Number of shares		Registered,
	Domestic		issued and
	shares	H shares	fully paid
	'000	'000	RMB'000
At 1st January, 2004	215,000	—	215,000
Conversion of certain state-owned domestic shares to H shares *(Note)*	(11,500)	11,500	—
Issue of H shares upon listing on the Main Board of the Stock Exchange (including those converted from domestic shares)	—	115,000	115,000
At 31st December, 2004 and 31st December, 2005	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 at HK$10.50 each 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.

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31. DEFERRED TAXATION

The following are the major deferred tax liabilities and assets recognised and movements thereon during the current and prior years:

	Trademarks RMB'000	Others RMB'000	Total RMB'000
At 1st January, 2004 and 31st December, 2004	—	—	—
Charge (credit) to income for the year	5,133	(6,983)	(1,850)
At 31st December, 2005	5,133	(6,983)	(1,850)

32. CAPITAL COMMITMENTS

	2005 **RMB'000**	2004 RMB'000
Capital expenditure in respect of acquisition of property, plant and equipment contracted for but not provided in the financial statements	**234,912**	423,631
Capital expenditure in respect of the acquisition of property, plant and equipment authorised but not contracted for	**—**	340,180

As set out in note 23, the Group paid a refundable deposit of RMB80,000,000 to CHDTGL for the proposed acquisition of certain assets pursuant to a framework agreement dated 27th September, 2004.

While the framework agreement expired on 31st December, 2005, in the opinion of the Directors, efforts and negotiation will continue to be made with a view to enforce completion of the agreement. However, the final amount of the consideration for the acquisition, if the transaction does go ahead, is yet to be determined.

33. OTHER COMMITMENTS

In August 2003, in conjunction with China Heavy Duty Truck Group, the Group entered into research and development contracts with AVL List GmbH, a third party, with a contract sum of approximately Euro 6.6 million (equivalent to approximately RMB68,741,000).

As at 31st December, 2004, the outstanding commitment amounted to approximately Euro 1,445,000 (equivalent to approximately RMB15,242,000). All such commitments were fulfilled as at 31st December, 2005 as the project was completed during the year.

34. OPERATING LEASE COMMITMENTS

The Group as lessee

	2005 RMB'000	2004 RMB'000
Minimum lease payments paid under operating leases during the year:		
Plant and machinery	**30,117**	30,117
Premises	**20,522**	18,712
	50,639	48,829

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

	2005 RMB'000	2004 RMB'000
Within one year	**50,355**	48,620
In the second to fifth year inclusive	**73,218**	118,508
	123,573	167,128

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

35. POST BALANCE SHEET EVENT

On 20th March, 2006, 山東省人民政府國有資產監督管理委員會 (State-owned Assets Supervision and Administration Commission of Shandong Province People's Government, "Shandong SASAC") issued a document approving the segregation of ownership between CHDTGL and 濰坊柴油機廠 (Weifang Diesel Engine Works, the "Weichai Factory") such that CHDTGL transferred its entire ownership in Weichai Factory to Shandong SASAC for its direct holding (the "Transfer").

Up to the date of the annual report, Weichai Factory is interested in approximately 23.53% shareholding interest in the Company and is the single largest shareholder of the Company. Upon completion of the Transfer, Shandong SASAC has become the direct supervising authority over Weichai Factory.

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36. CONNECTED AND RELATED PARTIES DISCLOSURE

(a) During the year, the Group had the following significant transactions with related parties and connected persons:

	2005	2004
	RMB'000	RMB'000
Connected persons and related parties		
China Heavy Duty Truck Group:		
Sales of diesel engines and related parts	**1,806,798**	2,003,837
Purchases of materials	**128,868**	124,768
Purchases of finished diesel engines	**409,791**	—
General services fee paid	**23,571**	21,288
Utility services fee paid	**129,172**	123,494
Processing services fee	**60,042**	89,178
Sales and warranty period repair services fee income	**21,025**	13,454
Purchases of property, plant and equipment	**145**	88
Disposal of property, plant and equipment	**71**	196
Purchase of trademarks	**—**	119,264
Trademarks fee paid	**—**	5,184
Rental paid for certain premises, machinery and equipment	**46,218**	46,218
Connected persons		
Fujian Longgong Group *(note i):*		
Sales of diesel engines and related parts	**349,774**	317,715
Guangxi Liugong Group *(note ii):*		
Sales of diesel engines and related parts	**266,338**	335,463

Notes:

(i) Fujian Longgong is a promoter of the Company and holds 6.52% interest in the Company at 31st December, 2005. Fujian Longgong together with its affiliates are collectively referred as the "Fujian Longgong Group".

(ii) Guangxi Liugong is a promoter of the Company and holds 1.36% interest in the Company at 31st December, 2005. Guangxi Liugong together with its affiliates are collectively referred as the "Guangxi Liugong Group".

36. CONNECTED AND RELATED PARTIES DISCLOSURE (Continued)

(a) During the year, the Group had the following significant transactions with related parties and connected persons: (Continued)

Compensation of key management personnel

The remuneration of Directors and other members of key management during the year was as follows:

	2005	2004
	RMB'000	RMB'000
Short-term benefits	**3,636**	5,200
Post-employment benefits	**238**	238
	3,874	5,438

(b) Details of the trading balances with related parties are set out in notes 25 and 27. These trading balances arose from the transactions set out in note 36(a).

(c) Details of the non-trade balances with related party are as follows:

(i) *Name of related company*

	2005	2004
	RMB'000	RMB'000
Amount due to a related party:		
China Heavy Duty Truck Group *(Note)*	**186,865**	292,751

The amount is unsecured and interest-free. An amount of RMB182,719,000 (2004: RMB269,635,000) is repayable in instalments over a period of 5 years and the remaining balance is repayable on demand and approximates fair value.

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36. CONNECTED AND RELATED PARTIES DISCLOSURE (Continued)

(c) Details of the non-trade balances with related party are as follows: (Continued)

(i) *Name of related company (Continued)*

Note: As at 31st December, 2005, included in the balance due to China Heavy Duty Truck Group was an amount of approximately RMB182,719,000 (2004: approximately RMB269,635,000) which represented the balance of the consideration payable for the acquisition of technologies and trademarks from China Heavy Duty Truck Group. The amount is repayable as follows:

	2005 RMB'000	2004 RMB'000
Within one year	**59,126**	67,409
In the second year	**62,083**	67,409
In the third to fifth year inclusive	**61,510**	134,817
	182,719	269,635
Less: Amount due for settlement within one year (including under current liabilities)	**(59,126)**	(67,409)
	123,593	202,226

The effective interest rate for the amount due to a related party of RMB182,179,000 is approximately 5%.

At 31st December, 2005, the fair value of the amount due to a related part was approximately RMB182,719,000, determined based on the present value of the estimated future cash outflows discounted using the prevailing market rate at the balance sheet.

(ii) Details of a refundable deposit of RMB80,000,000 (2004: RMB80,000,000) paid to CHDTGL are set out in note 23.

(d) Transactions/balances with other state-controlled entities in the PRC

The Group operates in an economic environment currently predominated by entities directly or indirectly owned or controlled by the PRC government ("state-controlled entities"). In addition, the Group itself is part of a larger group of companies under Weichai Factory which is controlled by the PRC government. Apart from the transactions with Weichai Factory and fellow subsidiaries and other related parties disclosed in sections (a) to (c) above, the Group also conducts business with other state-controlled entities. The Directors consider those state-controlled entities are independent third parties so far as the Group's business transactions with them are concerned.

In establishing its pricing strategies and approval process for transactions with other state-controlled entities, the Group does not differentiate whether the counter-party is a state-controlled entity or not.

36. CONNECTED AND RELATED PARTIES DISCLOSURE (Continued)

(d) Transactions/balances with other state-controlled entities in the PRC (Continued)

Material transactions/balances with other state-controlled entities are as follows:

	2005 **RMB'000**	2004 RMB'000
Trade sales	**1,394,513**	2,078,155
Trade purchases	**598,002**	865,640
Amounts due to other state-controlled entities	**121,652**	184,804
Amounts due from other state-controlled entities	**140,659**	181,856

In addition, the Group has entered into various transactions, including deposits placements, borrowings and other general banking facilities, with certain banks and financial institutions which are state-controlled entities in its ordinary course of business. In view of the nature of those banking transactions, the Directors are of the opinion that separate disclosure would not be meaningful.

Except as disclosed above, the Directors are of the opinion that transactions with other state-controlled entities are not significant to the Group's operations.

37. PARTICULARS OF SUBSIDIARIES

The following table lists the subsidiaries of the Group as at 31st December, 2005:

Name of subsidiary	**Form of business structure**	**Country of registration/ Principal place of operation**	**Paid up registered capital** RMB	**Proportion of registered capital held by the Company directly**	**Principal activities**
濰柴動力(濰坊)備品資源有限公司	Incorporated	The PRC	45,795,918	51%	Trading of spare parts of diesel engine
濰柴動力(濰坊)油品有限公司	Incorporated	The PRC	5,200,000	52%	Trading of lubricant oil products
濰柴動力(濰坊)集約配送有限公司	Incorporated	The PRC	10,400,000	52%	Provision of warehouse management services
濰柴動力(上海)投資有限公司	Incorporated	The PRC	47,500,000	95%	Inactive

None of the subsidiaries had any debt securities outstanding at the end of the year or at any time during the year.

Financial Summary

	2001 RMB'000 (audited)	2002 RMB'000 (audited)	2003 RMB'000 (audited)	2004 RMB'000 (restated)	**2005** **RMB'000** **(audited)**
RESULTS					
Turnover	856,581	1,880,368	3,555,670	6,155,779	**5,250,735**
Profit before tax	82,700	224,677	455,493	738,738	**410,602**
Income tax expense	(4,188)	(57,132)	(178,025)	(205,484)	**(93,919)**
Profit for the year	78,512	167,545	277,468	533,254	**316,683**
Attributable to:					
Equity holders of the parent	78,512	167,545	277,468	533,254	**315,203**
Minority interests	—	—	—	—	**1,480**
	78,512	167,545	277,468	533,254	**316,683**
Dividends	—	—	20,859	72,075	**103,955**
Basic earnings per share (in RMB)	0.98	2.01	1.29	1.73	**0.96**

Financial Summary

	As at 31st December,				
	2001	2002	2003	2004	**2005**
	RMB'000	RMB'000	RMB'000	RMB'000	**RMB'000**
	(audited)	(audited)	(audited)	(restated)	**(audited)**
ASSETS AND LIABILITIES					
Total assets	454,841	705,268	2,371,908	4,914,308	**5,611,955**
Total liabilities	(359,665)	(487,797)	(1,897,408)	(2,757,587)	**(3,150,994)**
Capital and reserves	95,176	217,471	474,500	2,156,721	**2,460,961**
Equity attributable to equity holders of the parent	95,176	217,471	474,500	2,156,721	**2,398,581**
Minority interests	—	—	—	—	**62,380**
	95,176	217,471	474,500	2,156,721	**2,460,961**