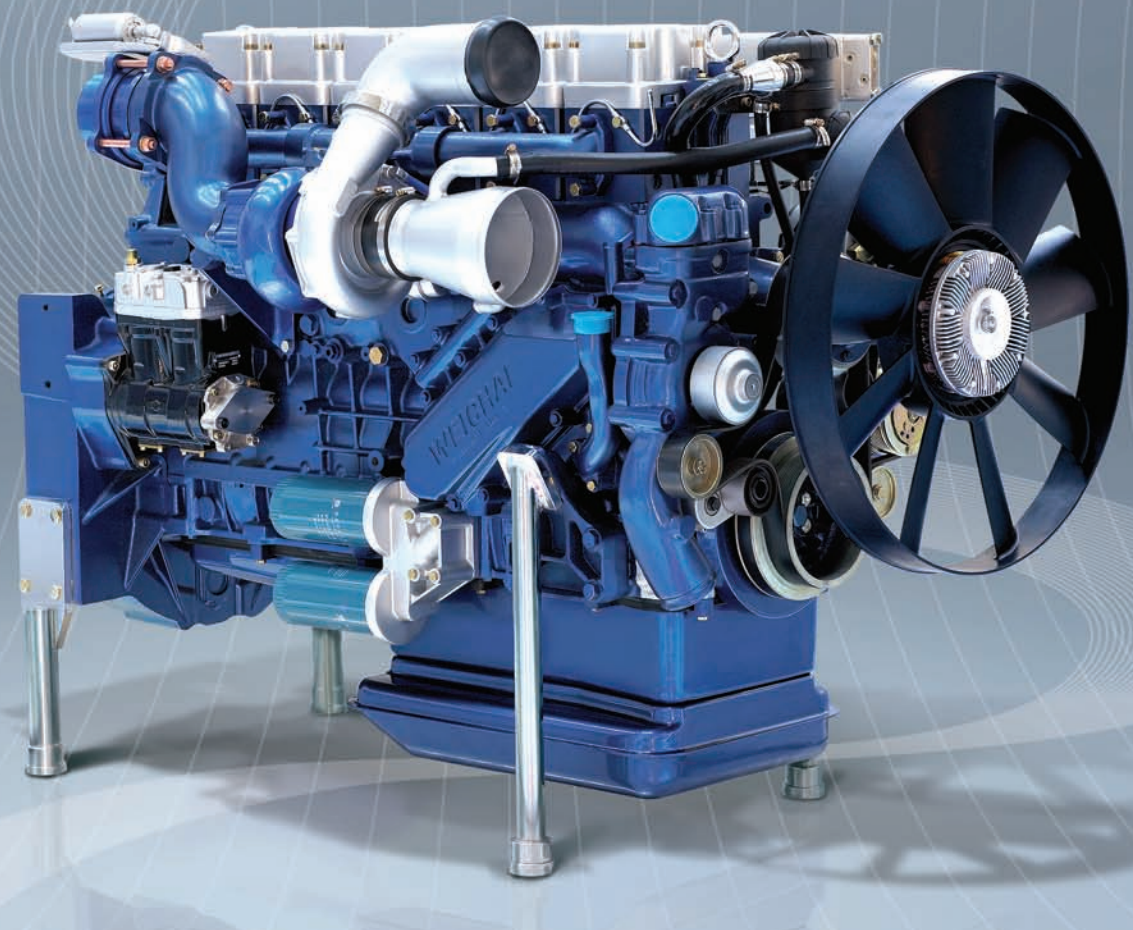
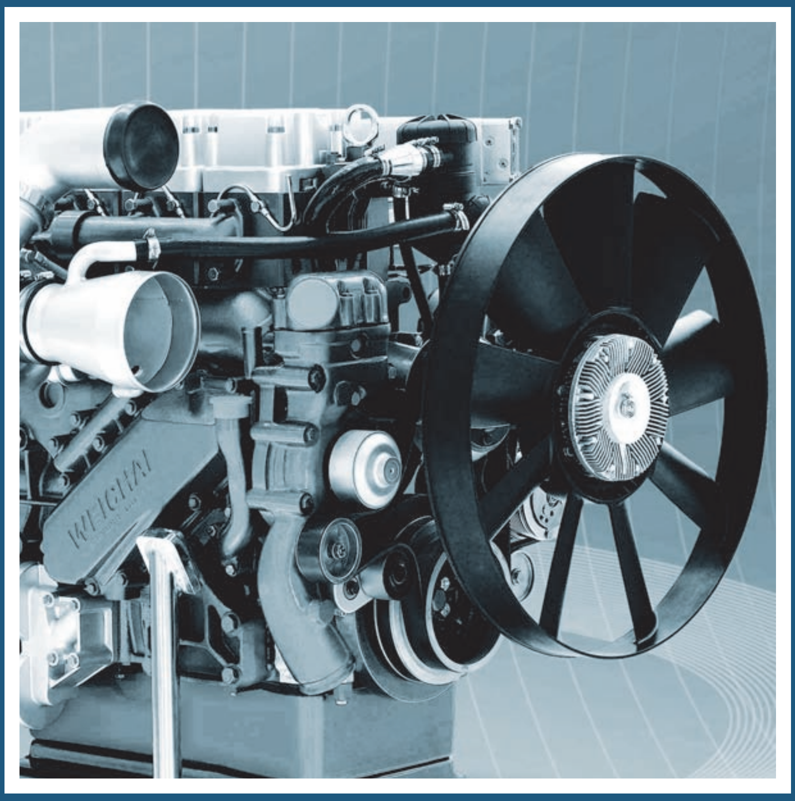
濰柴動力股份有限公司
WEICHAI POWER CO., LTD.

stock code: 2338

2006 ANNUAL REPORT




WEICHAI

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 Xuejian
Yao Yu
Li San Yim
Liu Huisheng
Zhang Fusheng
Julius G. Kiss
Han Xiaoqun

Independent Non-executive Directors

Koo Fook Sun, Louis
Zhang Xiaoyu
Fang Zhongchang

Supervisors

Sun Chengping
Wang Yong
Jiang Jianfang

Company Secretary, Chief Financial Officer and Qualified Accountant

Zhang Yuanfu *(FCCA, HKCPA)*

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
Tel: (86) (536)-229 7068
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 Zhongchang

Corporate Information

Remuneration Committee

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

Nomination Committee

Fang Zhongchang *(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 Highlights

- Turnover amounted to approximately RMB6,633.7 million, up by approximately 26.3%.
- Profit attributable to shareholders amounted to approximately RMB702.7 million, up by approximately 122.9%.
- Basic earnings per share was approximately RMB2.13, up by approximately 121.9%.

Chairman's Statement

Dear Shareholders,

1. Review of Operations

In 2006, the China government continued to implement its stable financial policies, resulting in a rapid but stable growth of the country's economy. China recorded a GDP growth of 10.7% over the same period last year, while its fixed asset investments achieved a year-on-year increase of 24%. With the rapid growth of its economy, the heavy-duty truck and construction machinery industries in China have entered a new era of development.

In line with the continuous improvement of the nationwide road facilities and, in particular, the increase in the miles of expressways, a concrete foundation for the growth of the heavy-duty truck industry was laid down. The continual improvement of the relevant national laws and regulations, the intensified control on truck overloading and the large-scale implementation of the 《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) directly facilitated the rapid development of the heavy-duty truck industry in China towards the direction of high-tonnage, high-power and high-efficiency. According to the

Chairman's Statement

statistics of 中國汽車工業協會 (China Association of Automobile Manufacturers), the sales of heavy-duty trucks in the automobile industry in China reached over 300,000 units in 2006, representing a year-on-year growth of approximately 30%.

The heavy-duty truck market became increasingly competitive in China following its full development in 2006. According to the statistics of 中國汽車工業協會 (China Association of Automobile Manufacturers), the Company's major customers such as 陝西重型汽車有限公司 (Shaanxi Heavy-duty Motor Company Limited), 北汽福田汽車股份有限公司 (Beiqi Futian Motor Company Limited), 重慶紅岩汽車有限公司 (Chongqing Hongyan Heavy Duty Motor Company Limited), 包頭北方奔馳有限公司 (Baotou North-Benz Heavy-Duty Truck Co., Ltd.), 安徽華菱重型汽車集團有限公司 (Anhui Hualing Heavy-Duty Automobile Group Co., Ltd.) and 安徽江淮汽車股份有限公司 (Anhui Jianghuai Automotive Co., Ltd.), etc. recorded strong growths with significant increases in market shares over 2005, driving the growth in sales of the Company's products. The Company's aggregate sales of heavy-duty truck engines reached approximately 80,480 units in 2006, representing a year-on-year increase of 26.8%.

At the same time, the growth of the construction machinery industry was further enhanced by the increase in infrastructure investments in China, such as the gradual implementation of large-scale projects such as "西氣東輸" ("West to East Gas Pipelines"), "南水北調" ("South to North Water Channels"), "青藏鐵路" ("Qinghai-Tibet Railway"), "奧運項目" ("Olympic Games") and the State's active promotion of urbanisation of the rural areas. A total of approximately 179,000 units of construction machinery were sold in China during the year, representing a year-on-year increase of 24.4%. Such increase was mainly driven by the sales of large construction machinery (wheel loaders with a load capacity of 5 tonnes (and above)), which recorded a growth of 15.0%. The production of construction machinery is further centralised. According to the statistics of 中國工程機械工業協會 (China Construction Machinery Association), the Company's major customers such as 廣西柳工機械股份有限公司 (Guangxi Liugong Machinery Co., Ltd.), 中國龍工控股份有限公司 (China Infrastructure Machinery Holdings Limited), 山東臨工工程機械有限公司 (Shandong Lingong Construction Machinery Co, Ltd.), 徐州徐工物資供應有限公司 (Xuzhou Xugong Material Supplying Co., Ltd.), etc. recorded relatively strong growths over 2005. The Company's sales of engines for construction machinery were approximately 59,210 units in 2006, representing a year-on year increase of 30.2%. According to the information published on the website of 中國工程機械信息網 (China Construction Machinery Network), the Company had a market share of 79.7% in the market of wheel loaders with a load capacity of 5 tonnes (and above) in 2006, representing a growth of approximately 2% over 2005.

With its technology innovation capability, the Company continued to lead the advancement of power technologies in China. Following the production of the first proprietary Euro III emission standard compliant high-power, high-speed "Landking" (「藍擎」) engines in China and the exclusive application of the new 2006 model of WD615 engines with WEVB technology and reduction in fuel and noise in China, the Company successfully launched the first proprietary 12-litre and 480-horsepower WD12 engines in October, which have already been introduced in the market and orders have already been received. Specifically designed for commercial heavy-duty trucks in China, this new product significantly reduced the reliance on the import of high-emission and high-speed engines in China.

In 2006, the management of the Company enhanced its internal management, introducing an effective management model and lowering its costs, leading to an increase in the Company's operation quality. The gross profit rate of the Company's products amounted to approximately 28.5%, representing an increase of approximately 6.5%, when compared with that in 2005.

The Company sold a total of approximately 145,890 units of different models diesel engines in 2006, representing an increase of approximately 27.8% over the corresponding period in 2005, and sales increased by approximately 26.3% to approximately RMB6,633.7 million. The net profit attributable to shareholders increased by approximately 123.0% over the previous year to approximately RMB702.7 million while earnings per share increased by 121.9% to approximately RMB2.13.

In June 2006, the "Weichai" trademark owned by the Company was recognised as a 中國馳名商標 (well-known trademark in China) by the 國家工商行政管理總局 (State Industry and Commence Administrative Bureau). In March 2006, heavy-duty engine products produced by the Company were given complete exemption from inspection in respect of environmental-friendly production by the 國家環境保總局 (State Environmental Protection Administration of China). The Company was granted a 環境/職業健康安全管理體系認証証書 (certificate for environmental/occupational health and safety management) from 天津華城認証中心 (CAQC Certification Inc.) in January 2006. In May 2006, the Company was granted the honorary title of 全國百佳汽車零部件供應商 ("Top 100 Suppliers for Parts and Components for Automobiles") in the third consecutive year. In April 2006, the Company was accredited as a 自主創新典型企業 ("model enterprise of independent innovation") by the 中共中央宣傳部 (Propaganda Department of the Central Government). In December 2006, the "Weichai" trademark was ranked the 81st among the 中國最有價值商標500強 (Top 500 most valuable trademark in China) conducted by the 中國品牌研究院 (China Brand Research Institute). It also topped the most valuable trademark in the diesel engine industry in China.

2. Dividend

The proposed merger with TAGC by the issue of A Shares is close to completion (subject to the Shenzhen Stock Exchange granting its approval for the listing of the A Shares). The A Shares will be listed on the Shenzhen Stock Exchange in the near future. According to the provisions of the relevant merger agreement, the Company and TAGC will not distribute their unallocated profit prior to the completion of the merger (provided that, in the event that the merger is not completed before 30th April, 2007, the Board may propose a final dividend for 2006 in the amount not exceeding that of the interim dividend declared and paid by the Company for the six months ended 30th June, 2006). In the event that the said merger is completed, the then accrued unallocated profit will be shared by the holders of the A Shares and H Shares of the Company. A Board meeting will be held after the completion of the merger to consider the declaration of final dividend for the year of 2006.

Chairman's Statement

3. Acquisition and Consolidation

On 29th December, 2006, the merger of the Company and TAGC was considered and approved by a large majority of votes at the Extraordinary General Meeting of the shareholders, the Extraordinary General Meeting of the holders of H Shares and the Extraordinary General Meeting of the holders of domestic shares and foreign shares of the Company.

The merger is expected to be completed in the second quarter of 2007, after which the Company will bring better and more stable return to the shareholders.

4. Outlook and Prospects

Looking ahead, in view of the strong demand for downstream products, the Directors are optimistic about the prospect of the Company's business in the future.

As its focus mission in 2007, the Company will facilitate the resources integration with TAGC. After the completion of the Merger (if completed), the Company will have the advantage of the most distinguished power assembly, comprising engines, transmissions and vehicle axles, in China and become the only and the most comprehensive production chain for vehicles and components in China, creating more room for the development of the Company.

Utilising its unique resources and technical advantages, the Company will also shift its focus on 10-litre high-speed heavy-duty diesel engines to 12-litre engines in order to meet the demand for high-tonnage, high-power and high-efficiency heavy-duty trucks and lead the development of the high-speed heavy-duty diesel engine industry in China. Meanwhile, the Company will continue to persist in the development strategy of internationalization by aggressively developing its international market, speeding up the development of international ancillary market and maximizing its production capability to generate better investor returns.

5. Appreciation

Last but not least, I would like to take this opportunity to express my sincere appreciation to all our shareholders, the general public and our customers 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, 17th April, 2007

Management Discussion and Analysis of Results of Operations and Financial Position

The Group is one of the leading high-speed, heavy-duty engine manufacturers in China, supplying its products mainly to certain major domestic truck and construction machinery manufacturers. The Company's core engine products are six-cylinder,110–266kw output, 9.7 litre displacement WD615 and WD618 diesel engines with output of 265–323kw. During the Period, the Group started the production of its newly-invented Euro III diesel engines, WP10 and WP12, with a 10–12 litre displacement and higher power (up to 480 horsepower) using its new production lines.

Business Review

During the Period, the economy of China continued to record impressive growth. The gross domestic product ("GDP") expanded to approximately 10.7% for the year of 2006 from 9.9% for the year of 2005. In line with the strong economy growth and the rapid urbanization stimulated by the 11th Five Year Plan of China, both heavy-duty truck and construction machinery markets showed a significant recovery from the downturn in 2005. During the Period, the sales of heavy-duty trucks and construction machineries (wheel loaders with a load capacity (and above) in China increased by approximately 30.6% and 15.0% respectively compared with those in the year of 2005.

Sales of diesel engines — heavy-duty truck

The Group is the largest supplier of diesel engines to major manufacturers of heavy-duty trucks with a load capacity of 15 tons (and above) in China. The key customers of the Company are: 陝西重型汽車有限公司 (Shaanxi Heavy-duty Motor Company Limited), 重慶紅岩重型汽車有限公司 (Chongqing Hongyan Heavy Duty Motor Company Limited), 北汽福田汽車有限公司 (Beiqi Futian Motor Company Limited), 包頭北方奔馳汽車有限公司 (Baotou North-Benz Heavy-duty Truck Co., Ltd.), 安徽華菱汽車集團有限公司 (Anhui Hualing Automobile Group Co., Ltd.) and 安徽江淮汽車股份有限公司 (Anhui Jianghuai Automotive Co., Ltd.), etc. Thanks to the strict implementation of the 《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) by the Central Government and the rapid shift in focus and demand in the market in China from light and medium sized heavy-duty trucks to heavy-duty trucks with a load capacity of 15 tons (and above), the above-mentioned customers of the Group expanded their market share rapidly in China in 2006. During the Period, the Group sold approximately 145,890 units of diesel engines in total, compared to approximately 114,180 units in 2005, representing an increase of approximately 27.8%. Of the diesel engines sold in 2006, approximately 80,480 units (2005: 63,490 units) were truck engines, representing an increase of approximately 26.8% compared to that in 2005.

Sales of diesel engines — construction machinery

During the Period, China's construction machinery market also showed a very strong recovery from the depressed market in 2005 due to the GDP growth rate, which still maintained at a very high level. The Group is also the largest supplier of diesel engines to major manufacturers of construction machinery (mainly wheel loaders) with a load capacity of 5 tons (and above) in China. The key customers of the Group are: 廣西柳工機械股份有限公司 (Guangxi Liugong Machinery Co., Ltd), 龍工(上海)機械有限公司 (Longgong Shanghai Machinery Company Limited), 龍工(福建)機械有限公司 (Longgong (Fujian) Machinery Company Limited) ("Longgong Fujian"), 山東臨工工程機械有限公司 (Lingong Shandong Construction Machinery Co., Ltd) and 徐州徐工物資供應有限公司 (Xuzhou Xugong Material Supplying Co., Ltd), etc. During the Period, the Group sold approximately 145,890 units of diesel engines in total, compared to approximately 114,180 units in 2005, representing an increase of approximately 27.8%. Of the diesel engines sold in 2006, approximately 59,210 units (2005: 45,470 units) were construction machinery engines, representing an increase of approximately 30.2% compared to that in 2005.

Management Discussion and Analysis of Results of Operations and Financial Position

Sales of engine parts

Apart from the production and sale of diesel engines for trucks and construction machinery, 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 revenue of the Group, but also ensured the generation of revenue from the provision of after-sales service on the parts. During the Period, the Group recorded an approximately 11.0% increase in sales of engine parts from approximately RMB683.0 million in 2005 to approximately RMB758.0 million in 2006. The surge was mainly attributable to the increase in accumulated sales volume of diesel engines in the previous years. The sales of engine parts represented approximately 11.4% (2005: 13.0%) of the Group's total turnover in the Period.

FINANCIAL REVIEW

Turnover

The Group's turnover increased by approximately 26.3% from approximately RMB5,250.7 million in 2005 to approximately RMB6,633.7 million in 2006. The increase in turnover was mainly due to a rebounce in demand in the heavy-duty truck and construction machinery industries for diesel engines. During the Period, the Group sold approximately 145,890 units of diesel engines in total, compared to approximately 114,180 units in 2005, representing an increase of approximately 27.8% while the unit average selling price of its diesel engines remained relatively stable.

Gross profit and gross profit margin

During the Period, the Group's gross profit increased by approximately 63.8% from approximately RMB1,154.3 million in 2005 to approximately RMB1,891.3 million in 2006 as a result of the increase in the sales volume of diesel engines from approximately 114,180 units in 2005 to approximately 145,890 units in 2006. Gross profit margin increased from approximately 22.0% in 2005 to approximately 28.5% in 2006, which was mainly due to the efficient cost control of the Company and the increase in the sales of heavy-duty truck diesel engines in 2006 which have a relatively higher gross profit margin than that of construction machinery diesel engines.

Other income

Other income increased by approximately 41.9% to approximately RMB99.3 million in 2006 from approximately RMB70.0 million in 2005. The increase was primarily due to the recovery of bad debts expenses and the compensation received from 中國重型汽車集團有限公司 (China Heavy Duty Track Group Co., Ltd.) in the Period.

Distribution costs

Distribution costs increased from approximately RMB404.0 million in 2005 to approximately RMB485.6 million in 2006. As a percentage of turnover, distribution costs decreased from approximately 7.7% in 2005 to approximately 7.3% in 2006, which was mainly due to the significant increase in the economy of scale of the Group.

Administrative expenses

Administrative expenses of the Group increased by approximately 52.2% from approximately RMB272.1 million in 2005 to approximately RMB414.1 million in 2006. The increase in administrative expenses was mainly due to the increase in the staff salary and professional fees paid in relation to the Merger (as hereinafter defined) with 湘火炬汽車集團股份有限公司 (Torch Automobile Group Co., Ltd) ("TAGC") during the Period. As a percentage of turnover, the administrative expenses increased from approximately 5.2% in 2005 to approximately 6.2% in 2006.

Share of results of an associate

Share of results of an associate increased by approximately 3,314.9% to approximately RMB32.1 million in 2006 from approximately RMB0.94 million in 2005, primarily due to the increase in the net profit of TAGC and the increased equity interest in 濰柴動力(濰坊)投資有限公司 (Weichai Power (Weifang) Investment Co., Ltd.) ("Weifang Investment") (which held approximately 28.12% equity interest in TAGC) held by the Company from 45% in the first half of the Period to 100% in second half of the Period.

Finance costs

Finance costs increased by approximately 47.0% to approximately RMB63.2 million in 2006 from approximately RMB43.0 million in 2005. This increase was mainly due to an increase in discounted charges on bank bills which were to fund the normal business operation of the Company.

Operating profit

As a result of better gross margin, other income and economy of scale in the running of the business in the Period, the Group's operating profit increased by approximately 109.9% to approximately RMB952.3 million in 2006 from approximately RMB453.6 million in 2005. The Group's operating margin was also widened from approximately 8.6% in 2005 to approximately 14.4% in 2006.

Income taxes

The Group's income tax expenses increased by approximately RMB87.2 million or 92.8% from approximately RMB93.9 million in 2005 to approximately RMB181.1 million in 2006, which was mainly attributable to the increased profit of the Group. In 2006, the Group's average effective rate tax was 20.4%, which decreased slightly compared to 22.9% in 2005. This decrease was mainly due to substantially all of the Group's production and sales were derived from the State high technology development zone, in which its assessable profit is taxed at a preferential rate of 15% compared to the statutory income tax rate of 33%.

Dividend

The Board has resolved that it will not propose a final dividend for the Company for 2006 until the Merger (as hereinafter defined) is completed. After the completion of the Merger (as hereinafter defined), the Board will meet again to consider proposing a final dividend (if any) for the Company for 2006 for the consideration and approval by the 2006 annual general meeting of the Company. For details concerning the agreement between the Company and TAGC on profit distribution, please refer to the section headed "I. The Merger Proposal — 3. Merger Agreement — Others" in the "Letter from the Board" contained in the circular of the Company dated 12th November, 2006.

Net profit margin

The Group's net profit for the Period increased from approximately RMB316.7 million in 2005 to approximately RMB708.0 million in 2006, whilst the net profit margin increased substantially from approximately 6.0% in 2005 to approximately 10.7% in 2006. The increase in the net profit margin was mainly due to the increase in gross profit margin from approximately 22.0% in 2005 to approximately 28.5% in 2006.

Liquidity and financial resources

During the Period, the Group maintained a relatively healthy cash flow and capital resources, which were reasonably allocated to appropriate uses.

Management Discussion and Analysis of Results of Operations and Financial Position

As at 31st December, 2006, the net cash and cash equivalents of the Group amounted to approximately RMB595.4 million (2005: RMB710.0 million).

As at 31st December, 2006, the Group's total assets were approximately RMB7,128.8 million (2005: RMB5,612.0 million), its total liabilities were approximately RMB4,076.5 million (2005: RMB3,151.0 million) and its total equity reached approximately RMB2,984.6 million (2005: RMB2,398.6 million).

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

Capital structure

During the Period, the Group's bank borrowings were primarily denominated in RMB while its cash and cash equivalents were held in RMB and Hong Kong dollars.

During the Period, the Group financed its liquidity requirements through a combination of cash flow as generated from normal operation bills, payables and bank loans. 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, 2006, the Group had debts of approximately RMB672.3 million (2005: RMB334.2 million) in aggregate and the gearing ratio was approximately 9.4% (2005: 6.0%) (total debt/total asset).

Business and geographical segments

During the Period, 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, 2006, bank deposits and bills receivables of approximately RMB494.0 million (2005: RMB371.7 million) were pledged to banks to secure bills payables issued and bills receivables discounted by the Group.

The pledged bank deposits carry prevailing bank interest rates of 1.65% (2005: 1.10%) per annum. The pledge will be released upon the settlement of the relevant bank borrowings. The fair value of the bank deposits at the balance sheet dates approximates the carrying amount.

Foreign exchange risk exposure

As almost all of the operations of the Group are located in China, its operating expenses as well as most of capital expenditure of the Group were denominated in RMB for the Period. 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, 2006.

Capital commitments

As at 31st December, 2006, the Group had approximately RMB57.2 million capital commitments contracted (2005: RMB234.9 million), principally for the capital expenditure in respect of acquisition of property, plant and equipment.

Capital expenditure, merger and acquisitions

During the Period, the Group's capital expenditure amounted to approximately RMB527.4 million (2005: RMB807.2 million). This was mainly attributable to the acquisition and installation of new production lines, modification of existing production lines, but excluding the acquisition of a 55% equity interest in Weifang Investment with an amount of approximately RMB684.8 million.

Human resources practice

As at 31st December, 2006, the Company had a total of over 8,000 employees. As the Company believes that a loyal and motivated work force is key to its success, the Company has long been investing in employees' development efforts by organizing various training courses to broaden their horizon. 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 are also 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.

Merger and Acquisition

Acquisition of 濰柴動力(濰坊)投資有限公司 (Weichai Power (Weifang) Investment Co., Ltd.) ("Weifang Investment")

On 12th May, 2006, the Company entered into conditional sale and purchase agreements to acquire 55% equity interest in Weifang Investment, as a result of which the Company's interest therein was increased from 45% to 100%, for a consideration of RMB684,750,000. Weifang Investment is an investment holding company whose principal asset is 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"), a company listed on the Shenzhen Stock Exchange. TAGC and its subsidiaries were are in the manufacture and sale of heavy trucks and related parts and components.

The acquisition of Weifang Investment was approved by the shareholders of the Company at its annual general meeting on 30th June, 2006. Details of the acquisition were set out in the circular of Company dated 14th June, 2006.

Merger with TAGC

On 12th November, 2006, the Company entered into an agreement (the "Merger Agreement") with TAGC in respect of the merger of the Company and TAGC and the issue of new A shares by the Company (which will be listed on the Shenzhen Stock Exchange upon completion of the Merger) ("Weichai A Shares") to the shareholders of TAGC (other than Weifang Investment) at the ratio of one Weichai A Share to 3.53 shares of TAGC held by such shareholders of TAGC (the "Merger"). The Merger will be accompanied by a cash alternative to the shareholders of TAGC who

Management Discussion and Analysis of Results of Operations and Financial Position

elected not to receive in whole (or in part) the Weichai A Shares at the rate of RMB5.05 per share of TAGC. The Company itself will not be a provider of such cash alternative, which shall be arranged by the sponsors to the listing of the Weichai A Shares.

After the completion of the Merger, (i) the shares of TAGC will be cancelled; (ii) TAGC's assets will be absorbed into and its liabilities assumed by the Company; (iii) TAGC will be deregistered and will cease to exist; and (iv) the Weichai A Shares will be listed on the Shenzhen Stock Exchange while the H shares of the Company will continue to be listed on The Stock Exchange of Hong Kong Limited (the "Stock Exchange").

The Merger and the Merger Agreement were approved by the shareholders of the Company and TAGC at the extraordinary general meeting on 29th December, 2006. Further details of the Merger and the Merger Agreement were set out in the section headed "I. The Merger Proposal" in the "Letter from the Board" contained in the circular of the Company dated 12th November, 2006.

1. Profiles of Directors, Supervisors, Senior Management and Major Technical Staff of the Issuer

(1) Directors

Position	Name	Bibliography
Executive Director, Chairman and Chief Executive Officer	Tan Xuguang	Male, Chinese, aged 45, Chairman and Chief Executive Officer of the Company, the Company's communist party secretary, Head of Weichai Factory. He joined Weichai Factory in 1977 and had held various positions including the chairman and general manager of 山東濰柴進出口有限公司 (Shandong Weichai IMP. & EXP. Corp), the director of the foreign trade department, the assistant to general manager, deputy general manager and general manager of Weichai Factory. Mr. Tan is a senior economist with a master's degree in engineering. He has extensive experience in the production, manufacturing and management of diesel engines, foreign trade, marketing, sales and management as well as corporate development and strategic management. Mr. Tan is a member of the 10th NPC and a guest professor of Tongji University. He received the "Outstanding Entrepreneur of the National Machinery Industry" award and was one of the 2005 CCTV Annual Economic Figures and 機械工業企業經營管理大師 (Master in Operation and Management of Mechanical Company). He is also the chairman of 湘火炬汽車集團股份有限公司 (Torch Automobile Group Co., Ltd.). His term of appointment as Director will expire on 17th December, 2008.

Directors, Supervisors and Senior Management

Position	Name	Bibliography
Executive Director, General Manager — Operations	Xu Xinyu	Male, Chinese, aged 43, Director and General Manager — Operations of the Company. He joined Weichai Factory in 1986 and had held the positions of the deputy general manager of 山東濰柴進出口有限公司 (Shandong Weichai IMP. & EXP. Corp), the director of corporate affairs office, the director of human resources department, the 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 and a master's degree in business administration. He has extensive experience in corporate reorganization and merger and acquisition, human resources management and corporate transformation management. He is also a director of 湘火炬汽車集團股份有限公司 (Torch Automobile Group Co., Ltd.) and the chairman of 濰柴動力 (濰坊) 投資有限公司 (Weichai Power (Weifang) Investment Co., Ltd.). His term of appointment as Director will expire on 17th December, 2008.
Executive Director, General Manager — Technology	Sun Shaojun	Male, Chinese, aged 41, Director and General Manager — Technology of the Company. He joined Weichai Factory in 1988 and had held the positions of the assistant supervisor and supervisor of the engineering department and the chief engineer of Weichai Factory. Mr. Sun is a senior engineer with a master's degree in engineering. He has extensive experience in technology management and research and development of diesel engines. He is also a recognized expert appointed by the Shandong People's Government (山東省人民政府泰山學者特聘專家) and a director of 湘火炬汽車集團股份有限公司 (Torch Automobile Group Co., Ltd.). His term of appointment as Director will expire on 17th December, 2008.

Directors, Supervisors and Senior Management

Position	Name	Bibliography
Executive Director, General Manager — Marketing	Zhang Quan	Male, Chinese, aged 43, Director and General Manager — Marketing of the Company. He joined Weichai Factory in 1986 and had held the positions of the directors of the quality control department, the production department and the marketing department, the assistant to general manager and deputy general manager of Weichai Factory. Mr. Zhang is an engineer with a bachelor's degree in engineering. He has extensive experience in quality management, production and manufacturing management, sales and marketing and customer management in the diesel engine industry. His term of appointment as Director will expire on 17th December, 2008.
Non-Executive Director	Zhang Fusheng	Female, Chinese, aged 49. She joined Weichai Factory in 1975. She was the deputy director of audit department, the director of finance department, the deputy chief accountant and the assistant to general manager and is currently the chief accountant and financial controller of Weichai Factory. She is a senior accountant and certified public accountant with university education. She has extensive experience in financial management, financial structure and debt restructuring. She is also the vice president and a director of 湘火炬汽車集團股份有限公司 (Torch Automobile Group Co., Ltd.). Her term of appointment as Director will expire on 17th December, 2008.
Non-Executive Director	Liu Huisheng	Male, Chinese, aged 41, Director of the Company. He joined Weichai Factory in 1989 and had held the positions of the deputy general manager of the power branch and the deputy director of the purchasing department in Weichai Factory, the general manager of 重慶濰柴發動機廠 (Chongqing Weichai Diesel Engine Works) and the assistant to the general manager of Weichai Factory. He is now the deputy general manager of Weichai Factory. He is a senior economist with a bachelor's degree in engineering. He has extensive experience in overall enterprise management and production and operations management. His term of appointment as Director will expire on 17th December, 2008.

Directors, Supervisors and Senior Management

Position	Name	Bibliography
Non-Executive Director	Yao Yu	Male, Chinese, aged 36. He was the secretary of the board of 深圳合眾實業股份有限公司 and the assistant to general manager of 深圳天極電業股份有限公司. He is currently the investment manager of 深圳市創新投資集團有限公司 (Shenzhen Chuangxin Investment Group Company Limited). He holds a master's degree in business administration with about 10 years investment management and related experience. His term of appointment as Director will expire on 17th December, 2008.
Non-Executive Director	Yeung Sai Hong	Male, Chinese, aged 52, a director of Peterson Holdings Company Limited, which is a promoter of the Company. Mr. Yeung is a member of the 9th Shandong Provincial Committee of the Chinese People's Consultative Conference. His term of appointment as Director will expire on 17th December, 2008.
Non-Executive Director	Chen Xuejian	Male, Chinese, aged 51. He is currently the general manager and legal representative of Weifang Investment Company. He had served as the deputy director of 濰坊市財政局 (Finance Bureau of Weifang City) and the deputy director of 濰坊市地方稅務局 (Tax Bureau of Weifang City). His term of appointment as Director will expire on 17th December, 2008.
Non-Executive Director	Li San Yim	Male, Chinese, aged 55. He founded 福建龍岩工程機械 (集團) 有限公司 (Fujian Longgong Construction Machinery (Group) Company Limited), which is a promoter of the Company, in 1993, of which he is the chairman. He is also the Chairman of China Infrastructure Machinery Holdings Limited (listed on the main board of the Stock Exchange). His term of appointment as Director will expire on 17th December, 2008.
Non-Executive Director	Julius G. Kiss	Male, German, aged 79. He is chairman of IVM Technical Consultants Wien G.m.b.H., which is a promoter of the Company. His term of appointment as Director will expire on 17th December, 2008.

Position	Name	Bibliography
Non-Executive Director	Han Xiaoqun	Female, Chinese, aged 56. She is currently 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. Her term of appointment as Director will expire on 17th December, 2008.
Independent Non-Executive Director	Zhang Xiaoyu	Male, Chinese, aged 61. He had served as the 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), the chairman of 中國汽車工程學會 (China Vehicles Engineering Association) and the chairman of 中國內燃機學會 (China Internal Combustion Engine Association). His term of appointment as Director will expire on 17th December, 2008.
Independent Non-Executive Director	Koo Fook Sun	Male, British, aged 50. He is the managing director of Hercules Capital Limited. He had held senior positions in various international investment banks and had been the director and chief executive officer of several listed companies in Hong Kong. Apart from serving the Company, Mr. Koo is also an independent 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. His term of appointment as Director will expire on 17th December, 2008.

Directors, Supervisors and Senior Management

Position	Name	Bibliography
Independent Non-Executive Director	Fang Zhongchang	Male, Chinese, aged 64. Mr. Fang graduated from Harbin Industrial University. He previously served as an engineer at Shandong Anqiu County Glasswork (山東安邱縣玻璃廠), the Deputy Mayor of Anqiu County (安邱縣), the Deputy Mayor of Weifang Municipal Government (濰坊市政府副市長), the 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 the 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 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. His term of appointment as Director will expire on 17th December, 2008.

(2) Supervisors

Position	Name	Bibliography
Chairman of Supervisory Board	Sun Chengping	Male, Chinese, aged 59. He joined Weichai Factory in 1969 and was the refinement workshop supervisor and the deputy general manager of Weichai Factory. Mr. Sun is currently the communist party secretary and the deputy general manager of Weichai Factory and a supervisor of 湘火炬汽車集團股份有限公司 (Torch Automobile Group Co., Ltd.). He is a senior economist with tertiary education. He has extensive experience in manufacturing management and technological improvement of diesel engines. His term of appointment as supervisor will expire on 17th December, 2008.
Supervisor	Wang Yong	Male, Chinese, aged 43, the director of the corporate affairs office of the Company. Mr. Wang joined Weichai Factory in 1984 and was the general manager of 濰柴廠動力分廠, the general manager of the power branch, the director of the corporate culture office, the director of the corporate affairs office and the assistant to general manager of Weichai Factory. Mr. Wang is a senior engineer with a bachelor's degree in engineering. The term of appointment as supervisor will expire on 17th December, 2008.
Supervisor	Jiang Jianfang	Female, Chinese, aged 44. She had held the positions of the deputy chief of the financial audit committee of 廣西柳工集團有限公司 (Guangxi Liugong Group Company Limited) and a supervisor of 廣西柳工機械股份有限公司 (Guangxi Liugong Machinery Company Limited). She is also an accountant. Her term of appointment as supervisor will expire on 17th December, 2008.

Directors, Supervisors and Senior Management

(3) Senior Management

Position	Name	Bibliography
General Manager — Manufacturing	Xu Hong	Male, Chinese, aged 47, General Manager — Manufacturing of the Company. Mr. Xu joined Weichai Factory in 1976 and previously held the positions of the deputy director of the casting branch and powering department, the deputy general manager of the casting factory (鑄造廠), the general manager of 鑄鍛廠 and the director of the manufacturing department. He is a university graduate with extensive management experience in production and manufacturing as well as safety and environmental protection. His term of appointment will expire on 17th December, 2008.
Chief Financial Officer, Qualified Accountant and Company Secretary	Zhang Yuanfu	Male, Chinese (Hong Kong), aged 42, Chief Financial Officer, Company Secretary and Qualified Accountant of the Company and is responsible for the accounting and finance functions and secretarial affairs of the Company. Mr. Zhang joined the Company in September 2003. He is a fellow member of the Association of Chartered Certified Accountants in the United Kingdom and a member of the Hong Kong Institute of Certified Public Accountants with a bachelor's degree in economics. Mr. Zhang had worked for a number of listed companies in the main board and the GEM board of the Stock Exchange with over 18 years of experience in accounting and financial management. His term of appointment will expire on 17th December, 2008.
Secretary to the Board	Dai Lixin	Male, Chinese, aged 39, the Secretary to the Board and the 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 with university education. He has extensive experience in IPO and reorganization and merger and acquisition. His term of appointment will expire on 17th December, 2008.

Position	Name	Bibliography
Deputy General Manager of the Company and Supervisor of the Engineering Department	Tong Dehui	Male, Chinese, aged 43, the deputy general manager and the supervisor of the engineering department of the Company. Prior to the establishment of the Company, he was the deputy chief engineer, the supervisor of the engineering department and the secretary of the branch communist party of the engineering department of Weichai Factory. His term of appointment will expire on 17th December, 2008.
Deputy General Manager of the Company and Deputy General Manager of Marketing Company	Feng Gang	Male, Chinese, aged 43, the deputy general manager of the Company and the deputy general manager of the marketing company of the Company. Prior to the establishment of the Company, he was the executive deputy general manager of sales company and the executive deputy director of marketing management department of Weichai Factory. After the establishment of Weichai Power, he became its deputy director of the marketing department. His term of appointment will expire on 17th December, 2008.

Directors' Report

The Directors present their annual report and the audited consolidated financial statements for the year ended 31st December, 2006.

Principal Activities

The principal activities of the Group is the manufacture and sales of diesel engines and related parts. The principal activities of its associates and subsidiaries are set out in notes 53 and 88 to the consolidated financial statements, respectively.

Results and Appropriations

The results of the Group for the year ended 31st December, 2006 are set out in the consolidated income statement on page 47.

The Board has resolved that it will not propose a final dividend for the Company for 2006 until the Merger (as hereinafter defined) is completed. After the completion of the Merger (as hereinafter defined), the Board will meet again to consider proposing a final dividend (if any) for the Company for 2006 for the consideration and approval by the 2006 annual general meeting of the Company. For details concerning the agreement between the Company and Torch Automobile Group Co., Limited ("TAGC") on profit distribution, please refer to the section headed "I. The Merger Proposal — 3. Merger Agreement — Others" in the "Letter from the Board" contained in the circular of the Company dated 12th November, 2006.

Subsidiaries

Particulars of the Group's subsidiaries as at 31st December, 2006 are set out in note 37 to the consolidated financial statements.

Share Capital

Details of the share capital of the Company are set out in note 28 to the consolidated 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 15 to the consolidated financial statements.

Distributable Reserves

The amount of the Company's reserves available for distribution to shareholders as at 31st December, 2006, 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 (the "PRC") or Hong Kong Financial Reporting Standards, whichever is less, was approximately RMB1,250.4 million.

Merger and Acquisition

Acquisition of 濰柴動力 (濰坊) 投資有限公司 (Weichai Power (Weifang) Investment Co., Ltd.) ("Weifang Investment")

On 12th May, 2006, the Company entered into conditional sale and purchase agreements to acquire 55% equity interest in Weifang Investment, as a result of which the Company's interest therein was increased from 45% to 100%, for a consideration of RMB684,750,000. Weifang Investment is an investment holding company whose principal asset is 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"), a company listed on the Shenzhen Stock Exchange. TAGC and its subsidiaries were are in the manufacture and sale of heavy trucks and related parts and components.

The acquisition of Weifang Investment was approved by the shareholders of the Company at its annual general meeting on 30th June, 2006. Details of the acquisition were set out in the circular of Company dated 14th June, 2006.

Merger with TAGC

On 12th November, 2006, the Company entered into an agreement (the "Merger Agreement") with TAGC in respect of the merger of the Company and TAGC and the issue of new A shares by the Company (which will be listed on the Shenzhen Stock Exchange upon completion of the Merger) ("Weichai A Shares") to the shareholders of TAGC (other than Weifang Investment) at the ratio of one Weichai A Share to 3.53 shares of TAGC held by such shareholders of TAGC (the "Merger"). The Merger will be accompanied by a cash alternative to the shareholders of TAGC who elected not to receive in whole (or in part) the Weichai A Shares at the rate of RMB5.05 per share of TAGC. The Company itself will not be a provider of such cash alternative, which shall be arranged by the sponsors to the listing of the Weichai A Shares.

After the completion of the Merger, (i) the shares of TAGC will be cancelled; (ii) TAGC's assets will be absorbed into and its liabilities assumed by the Company; (iii) TAGC will be deregistered and will cease to exist; and (iv) the Weichai A Shares will be listed on the Shenzhen Stock Exchange while the H shares of the Company will continue to be listed on The Stock Exchange of Hong Kong Limited (the "Stock Exchange").

The Merger and the Merger Agreement were approved by the shareholders of the Company and TAGC at the extraordinary general meeting on 29th December, 2006. Further details of the Merger and the Merger Agreement were set out in the section headed "I. The Merger Proposal" in the "Letter from the Board" contained in the circular of the Company dated 12th November, 2006.

Issue of Debentures

On 23rd January, 2007, the Company issued certain short-term debentures in an aggregate principal amount of RMB900 million without guarantee. The said debentures are zero coupon with a face value of RMB100 each and priced and issued or at a discount at RMB96.31 each with a maturity period of 365 days from 25th January, 2007. The proceeds from the said issue of debentures will be used as working capital of the Company for its production and operational needs. For details of the said issue of debentures and its results, please refer to the announcements of the Company dated 17th January, 2007 and 29th January, 2007, respectively.

Directors' Report

Directors and Supervisors

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

Executive Directors:

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

Non-Executive Directors:

Yeung Sai Hong	
Chen Xuejian	
Yao Yu	
Li San Yim	
Liu Huisheng	(appointed on 30th June, 2006)
Zhang Fusheng	
Julius G. Kiss	
Han Xiaoqun	
Tong Jingen	(resigned on 30th June, 2006)

Independent Non-Executive Directors:

Zhang Xiaoyu
Koo Fook Sun, Louis
Fang Zhongchang

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 which commenced from 18th December, 2005 and is to end on 17th December, 2008.

The term of appointment of each of the non-executive Directors and Supervisors is from 18th December, 2005 to 17th December, 2008, except Tong Jingen who resigned with effect from 30th June, 2006 and Liu Huisheng who was appointed on 30th June, 2006 at the annual general meeting for the period from 30th June, 2006 to 17th December, 2008.

Each of the independent non-executive Directors has a fixed term of appointment commencing from the date of his appointment by the shareholders of the Company and ending on the conclusion of the next annual general meeting of the Company. At the annual general meeting, each of the independent non-executive Directors will offer himself for re-election for a term 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). The term of appointment of each Independent Non-Executive Directors of the Company is from 18th December, 2005 to 17th December, 2008.

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 (the "Listing Rules"). The Company considers all of the independent non-executive Directors independent.

Directors' and Supervisors' Interests in Shares and Underlying Shares

As at 31st December, 2006, the interests of the Directors, Supervisors and their associates in the shares and underlying shares 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 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%
Liu Huisheng	Beneficial owner	600,000 *(Note 1)*	0.2%
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, 2006, these foreign shares were 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, nor their associates had any interests or short positions in any shares or underlying shares of the Company or any of its associated corporations as at 31st December, 2006.

Substantial Shareholders

The register of substantial shareholders maintained by the Company pursuant to Section 336 of the SFO shows that as at 31st December, 2006, 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%
山東省國有資產監督管理委員會 State-owned Assets Supervision and Administration of Shandong Province) ("Shandong SASAC") *(Note 1)*	Beneficial owner	77,647,900	38.16%	Nil	—	23.53%
Peterson Holdings Company Limited ("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%

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
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") *(Note 5)*	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%
IVM Technical Consultants Wien Gesellschaft m.b.H. ("IVM") *(Note 6)*	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%
Fidelity International Limited	Investment manager	Nil	—	12,363,000	9.77%	3.75%
JP Morgan Chase & Co.	Investment manager	Nil	—	11,288,000	8.92%	3.42%
The Capital Group Companies Inc.	Investment manager	Nil	—	10,719,900	8.47%	3.25%
Hansberger Global Investors, Inc.	Investment manager	Nil	—	8,851,000	7.00%	2.68%
Altantis Investment Management Ltd.	Investment manager	Nil	—	6,500,000	5.14%	1.97%
Mirae Asset Global Investment Management Limited	Investment manager	Nil	—	6,335,000	5.01%	1.92%

Directors' Report

Notes:

1. State-owned Assets Supervision and Administration Commission of Shandong Province ("Shangdong SASAC") held the entire registered capital of Weichai Factory. For details, please refer to the announcement of the Company Dated 22nd March, 2006.

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, 2006, these foreign shares were included in the domestic shares of the Company.

9. H shares are overseas listed shares in the shares 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 31st December, 2006.

Connected Transactions and Directors' and Supervisors' Interests in Contracts of Significance

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

	Notes	RMB'000
Weichai Factory:		
Sales of diesel engines and related parts	(v), (xii)	275,107
Purchase of materials	(v), (xii)	111,146
Warehouse and logistic services fee income	(v), (xii)	796
General services fee paid	(vi), (xii)	8,131
Utility services fee paid	(vii), (xii)	90,071
Sales and warranty period repair services fee income	(viii), (xii)	16,917
Purchases of property, plant and equipment	(ix), (xii)	418
Disposal of property, plant and equipment	(ix), (xii)	39
Rental paid for certain premises, machinery and equipment	(x), (xii)	42,814
Chongqing Weichai Factory *(Note i):*		
Sales of diesel engines and related parts	(v), (xii)	39,276
Purchase of materials	(v), (xii)	6,232
General services fee paid	(vi), (xii)	7,172
Utility services fee paid	(vii), (xii)	14,012
Rental paid for certain premises, machinery and equipment	(x), (xii)	3,404
Processing services fee paid	(xi), (xii)	63,070
CHDTGL *(Note ii):*		
Sales of diesel engines and related parts	(v), (xii)	57,764
Purchases of materials	(v), (xii)	3,904
Longgong Fujian *(Note iii):*		
Sales of diesel engines and related parts	(v), (xiii)	97,355
Longgong Shanghai *(Note iii):*		
Sales of diesel engines and related parts	(v), (xiv)	429,983
Guangxi Liugong Group *(Note iv):*		
Sales of diesel engines and related parts	(v)	320,075

Notes:

(i) 重慶濰柴發動機廠 (Chongqing Weichai Diesel Engine Works) ("Chongqing Weichai Factory") is wholly owned by Weichai Factory.

Directors' Report

(ii) 中國重型汽車集團有限公司 (China Heavy Duty Truck Group Co., Ltd.) ("CHDTGL"), a state owned enterprise, was the holding company of Weichai Factory and held the entire registered capital of Weichai Factory until 20th March, 2006. On that date, Shandong SASAC issued a document approving the segregation of ownership between CHDTGL and Weichai Factory such that CHDTGL transferred its entire ownership in Weichai Factory to Shandong SASAC for its direct holding. CHDTGL ceased to be a connected person of the Company thereafter.

(iii) 龍工(福建)機械有限公司 (Longgong Fujian Machinery Company Limited) ("Longgong Fujian") and 龍工(上海)機械有限公司 (Longgong Shanghai Machinery Company Limited ("Longgong Shanghai")), wholly owned subsidiaries of China Infrastructure Machineries Holdings Limited ("CIMHL"), a company listed in Hong Kong, in which Li San Yim, a non-executive Director and his spouse, Ni Yingying, have beneficial interest in CIMHL and the Company. Accordingly, Li San Yim was interested in the transaction.

(iv) 廣西柳工集團有限公司 (Guangxi Liugong Group Company Limited) ("Guangxi Liugong") is a promoter of the Company and held 1.36% interest in the Company at 31st December, 2006. Guangxi Liugong together with its affiliates are collectively referred as the "Guangxi Liugong Group".

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

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

(vii) 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.

(viii) The sales and warranty period repair service fee income was based on 3% on the sales of medium speed diesel engines on behalf of Weichai Factory.

(ix) 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.

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

(xii) Tan Xuguang, the Chairman of the Board and the general manager of Weichai Factory, was interested in the transaction.

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 and its subsidiaries 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.

Emolument Policy

The emolument policy of the employees of the Group is set up by the Remuneration Committee on the basis of their merit, qualifications and competence.

The emoluments of the Directors of the Company are decided by the Remuneration Committee, having regard to the Group's operating results, individual performance and comparable market statistics.

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.

Purchase, Sale or Redemption of 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.

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.

Major Suppliers and Customers

The aggregate sales attributable to the Group's largest customer and the five largest customers accounted for approximately 21% and 53%, respectively, of the Group's total sales for the year.

At 31st December, 2006, Fujian Longgong was a shareholder holding indirectly more than 5% of the Company's share capital. An affiliate of Longgong Fujian, Longgong Shanghai, was one of the Group's five largest customers. All transactions between the Group and the customer concerned were carried out on normal commercial terms.

The aggregate purchase during the year attributable to the Group's five largest suppliers were less than 30% of the Group's total purchases.

Save as disclosed above, at no time during the year did a Director, a Supervisor, an associate of a Director or a shareholder of the Company, which to the knowledge of the Directors, own 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 of the Company. 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.

Directors' Report

Throughout the Period, 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 to the Listing Rules, the Audit Committee has reviewed the consolidated financial statements for the Period.

Compliance with Code on Corporate Governance Practices in Appendix 14 of the Listing Rules

During the Period, except for Code A.2.1, the Company was in compliance with the principles and code provisions in the "Code on Corporate Governance Practices" as set out in Appendix 14 to the Listing Rules (the "CG Code").

Code A.2.1 of the CG Code requires the roles of chairman and chief executive officer to be separate and not be performed by the same individual. Currently. Mr. Tan Xuguang ("Mr. Tan") serves as the Chairman and Chief Executive Officer of the Company. The Directors believe that vesting such roles in Mr. Tan will allow for more effective planning and execution of business strategies of the Company. As all major decisions are made in consultation with other members of the Board, the Company believes that there is adequate balance of power and authority in place.

Other than the deviation mentioned above, the Board is of the view that the Company has complied with the code provisions of the CG Code throughout the Period. None of the Directors is aware of any information that would reasonably indicate that the Company was not for any time during the Period under review in compliance with the code provisions of the CG Code.

Compliance with the Model Code

During the Period, 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 for Securities Transaction by Directors of Listed Issuers as set out in Appendix 10 to the Listing Rules (the "Model Code"). Having made specific enquiry of all Directors, the Directors have confirmed that they complied with the required standard set out in the Model Code for the Period under review.

Sufficiency of Public Float

The Company has maintained a sufficient public float throughout the year ended 31st December, 2006.

Donations

During the year, the Group made charitable donations amounting to approximately RMB1,018,000.

Post Balance Sheet Events

Details of significant events (including issue of short-term debentures with principal amount of RMB900 million) occurring after the balance sheet date are set out in note 34 to the consolidated financial statements.

Auditors

The financial statements have been audited by Deloitte Touche Tohmatsu and a resolution will be submitted to the annual general meeting to re-appoint Messrs. Deloitte Touche Tohmatsu as auditors of the Company.

Approval of the Consolidated Financial Statement

The consolidated financial statements for the period have approved by the Board on 17th April, 2007.

On behalf of the Board

Tan Xuguang
Chairman and CEO
Hong Kong, 17th April, 2007

Supervisory Committees' Report

Dear Shareholders,

During the Period, 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 principles 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 the senior management of the Company during the Period. On behalf of the Supervisory Committee, I hereby present our report as follows:

Overview of the Work of the Supervisory Committee

In 2006, as required by the relevant rules and procedures of meetings of the Supervisory Committee and based on its actual work, the Supervisory Committee conducted inspections of the operations and financial position of the Company, and reviewed the financial statements regularly. In 2006, the Supervisory Committee held two meetings, details of the time, attendance and contents of the meetings are as follows:

1. On 19th April, 2006, a meeting of the Supervisory Committee was convened. All Supervisors were present. The meeting considered and approved the resolutions of i) the report of the Supervisory Committee for 2005; ii) the financial statements prepared according to the relevant accounting standards of Hong Kong and PRC; and iii) the profit distribution proposal for 2005 and the connected transactions which occurred in 2005.

2. On 31st August, 2006, a meeting of the Supervisory Committee was convened. All supervisors were present. The meeting considered and approved the interim financial report of the Company for 2006.

The convening of the two meetings were in compliance with the relevant provisions of the Company Law and the Articles of Association of the Company.

In 2006, the supervisors had attended the shareholders' general meeting for 2005 and were present at all the board meetings of the Company for 2006. At those meetings, the supervisors had duly monitored whether the Company had operated in accordance with the law.

Independent Opinion of the Supervisory Committee on Relevant Matters of the Company in 2006

Compliance of the Company's operations with Legal Requirements

Pursuant to the laws and regulations of the place of listing, 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 the senior management of the Company, as well as the establishment and consistent implementation of the Company's internal management system.

The Supervisory Committee is of the view that the Board and the senior management of the Company strictly operated in accordance with the Company Law, the Articles of Association as well as other relevant regulations and rules of the place of listing, 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 and the Articles of Association. When examining the financial position of the Company and monitoring the performance of the directors and the senior management of the Company, the Supervisory Committee was not aware of any act harmful to the interests of the Company and its shareholders, nor was there any act in breach of the laws, regulations, the Articles of Association and rules of the Company.

Examination of Financial Position of the Company

The Supervisory Committee examined the financial position of the Company twice and duly considered the annual report of the Company for 2006 and the unqualified auditors' report for 2006 audited by the auditors of the Company. 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 aspects in an objective, true and fair manner, and the financial statements are true 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 2006.

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

Acquisition of 濰柴動力（濰坊）投資有限公司 Weichai Power (Weifang) Investment Co., Limited ("Weifang Investment")

On 12th May, 2006, the Company entered into conditional sale and purchase agreements to acquire the remaining 55% equity interest in Weifang Investment, as a result of which the Company's equity interest therein was increased from 45% to 100%, for a consideration of RMB684,750,000.

The acquisition of Weifang Investment was approved by the shareholders of the Company at its annual general meeting on 30th June, 2006.

Merger with TAGC

On 12th November, 2006, the Company entered into an agreement (the "Merger Agreement") with TAGC in respect of the merger of the Company and TAGC and the issue of new A shares by the Company (which will be listed on the Shenzhen Stock Exchange upon completion of the Merger) ("Weichai A Shares") to the shareholders of TAGC (other than Weifang Investment) at the ratio of one Weichai A Share to 3.53 shares of TAGC held by such shareholders of TAGC (the "Merger"). The Merger will be accompanied by a cash alternative to the shareholders of TAGC who elected not to receive in whole (or in part) the Weichai A Shares at the rate of RMB5.05 per share of TAGC. The Company itself will not be a provider of such cash alternative, which shall be arranged by the sponsors to the listing of the Weichai A Shares.

After the completion of the Merger, (i) the shares of TAGC will be cancelled; (ii) TAGC's assets will be absorbed into and its liabilities assumed by the Company; (iii) TAGC will be deregistered and will cease to exist; and (iv) the Weichai A Shares will be listed on the Shenzhen Stock Exchange while the H shares of the Company will continue to be listed on The Stock Exchange of Hong Kong Limited (the "Stock Exchange").

The Merger and the Merger Agreement were approved by the shareholders of the Company and TAGC at the extraordinary general meeting on 29th December, 2006. Further details of the Merger and the Merger Agreement were set out in the section headed "I. The Merger Proposal" in the "Letter from the Board" contained in the circular of the Company dated 12th November, 2006.

Supervisory Committees' Report

The Supervisory Committee is of view that the acquisition and merger were in compliance with the Company Law, Securities Law of China, the Articles of Association of the Company as well as other relevant regulations and rules of Hong Kong.

Connected Transactions

The Supervisory Committee is of view that the connected transactions of the Company during 2006 were conducted under the principles of fairness and equality. The connected transactions of the Company have been constantly monitored, and the prices for the connected transactions were reasonable and the amounts of the transactions were within the caps as approved by the shareholders. The Supervisory Committee is not aware of any act which is harmful to the interests of the shareholders.

In 2007, the Supervisory Committee will continue 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.

Sun Chengping
Chairman of the Supervisory Committee

Weifang, Shandong Province
17th April, 2007

Corporate Governance Report

The Company has always regarded the consistent maintenance of an excellent, solid and reasonable corporate governance structure as its top priority.

Code on Corporate Governance Practice

For the year ended 31st December, 2006, the Company has reviewed its corporate governance documents and is of the view that the Company has fully complied with the code provisions of the Code of Corporate Governance Practice set out in the Appendix 14 to the Listing Rules other than Code A.2.1, which requires that the roles of chairman and chief executive officer should be two separate roles and should not be performed by the same individual. Currently, Mr. Tan Xuguang ("Mr. Tan") serves as the Chairman of the Board as well as the Chief Executive Officer of the Company. Despite such deviation, the Directors believe that vesting such roles in Mr. Tan will allow for more effective planning and execution of business strategies of the Company. As all major decisions are made in consultation with other members of the Board, the Company believes that there is adequate balance of power and authority in place.

The Directors believe that the Articles of Association, the scope of responsibilities of the Audit Committee, the scope of responsibilities of the Supervisory Committee and the codes on securities dealings by directors and certain executives, which constitute the basis for the regular codes on corporate governance of the Company, have covered the principles and the code provisions of the Code on Corporate Governance Practice as set out in Appendix 14 to Listing Rules. In respect of the following areas, our internal corporate governance documents are more stringent than the Code on Corporate Governance Practices:

1. In addition to the Audit Committee, Remuneration Committee and Nomination Committee, the Company has also established the Strategic Development and Investment Committee (the "SDIC").

2. All members of the Audit Committee are independent non-executive Directors, of whom Mr. Koo Fook Sun, Louis, the Chairman of the Committee, holds the relevant professional qualification or professional knowledge related to accounting or financial management.

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 set out on page 15 to page 23 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 (executive Directors), Mr. Yeung Sai Hong, Mr. Chen Xuejian, Mr. Yao Yu, Mr. Li San Yim, Mr. Liu Huisheng, Ms. Zhang Fusheng, Mr. Julius G. Kiss, Ms. Han Xiaoqun (non-executive Directors), and Mr. Koo Fook Sun, Louis, Mr. Zhang Xiaoyu and Mr. Fang Zhongchang (independent non-executive Directors).

Corporate Governance Report

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 has notified each of the Directors and Supervisors 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.

Other than their working relationships with the Company, none of the Directors, Supervisors or the senior management has any financial, business or family relationships or any relationships in other material aspects with each other.

Other than the service contracts entered into by them or as otherwise disclosed in this annual report, none of the Directors or the Supervisors has any personal and substantive interest, direct or indirect, in the material contracts entered into by the Company or any of its subsidiaries during 2006.

In 2006, the Company held five Board meetings. The principal activities of the Board in 2006 were as follow:

- Review of the Company's annual and interim results;
- Review of annual profit distribution and the 2006 interim dividend and 2005 final dividend distribution proposals;
- Review of the merger with and acquisition of TAGC.

The total remuneration, including the basic salary, performance-linked salary, incentive-linked salary and discretionary bonus of the Directors in 2006 amounted to approximately RMB3.1 million. Independent non-executive Directors were only entitled to receive director's fees but not other salary or remuneration. For details for the remuneration of Directors, please refer to note 11 to the consolidated financial statements of the Company.

Audit Committee

An Audit Committee was established by the Board.

The Audit Committee comprises all the independent non-executive Directors, Mr. Koo Fook Sun, Louis, Mr. Zhang Xiaoyu and Mr. Fang Zhongchang, with Mr. Koo Fook Sun, Louis, with the appropriate professional qualifications and experience in financial matters, acting as the chairman of the Audit Committee. The terms of reference of the Audit 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 the period, presided over by Mr. Koo Fook Sun, Louis. Details of the attendance are set out on page 43 of this annual report.

The major works accomplished by the Audit Committee during the year are as follows:

- Review of the annual, interim financial statements of the Company, as well as the management recommendations furnished by the external auditors and responses from the Company's management;
- Review of the accounting policies and practices adopted by the Company and related matters;
- Review of the revised terms for certain existing continuing connected transactions and recommended to independent shareholders to vote in favour of the ordinary resolutions at the extraordinary general meeting of the Company held on 29th December, 2006 to approve the new terms for such continuing connected transactions;
- Recommending the setting up of a supervisory committee to ensure that all connected transactions of the Company are fair, impartial and transparent, offering protection of the interests of minority shareholders; and
- Assisting the Board to monitor the Company's internal audit.

Throughout the Period 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 to the Listing Rules, the Audit Committee has reviewed the consolidated financial statements for the year ended 31st December, 2006. The non-PRC auditors of the Company have audited the consolidated financial statements and have issued an unqualified auditors' report.

Strategic Development and Investment Committee

The SDIC was established by the Board.

The SDIC 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 SDIC currently comprises Mr. Tan Xuguang (Chairman of the Board and of the SDIC), Mr. Sun Shao Jun, Mr. Lui Huisheng, Mr. Chen Xuejian, Mr. Zhang Quan, Mr. Li San Yim, Mr. Zhang Xiaoyu and Mr. Julius G. Kiss.

Remuneration Committee

A Remuneration Committee was established by the Board.

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

Corporate Governance Report

The Remuneration Committee currently comprises all the independent non-executive directors and two non-executive Directors, being Mr. Koo Fook Sun, Louis (chairman of the Remuneration Committee), Mr. Zhang Xiaoyu, Mr. Fang Zhongchang, Ms. Zhang Fusheng and Mr. Yao Yu.

Nomination Committee

A Nomination Committee was established by the Board

The Nomination Committee comprises all the independent non-executive Directors and two executive directors, being Mr. Fang Zhongchang (chairman of the Nomination Committee), Mr. Koo Fook Sun, Louis, Mr. Zhang Xiaoyu, Mr. Xu Xinyu and Mr. Zhang Quan. The meetings of the Nomination Committee were 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, regularly review the composition of the Board and make suggestions as to any change in the membership of the Board that may be required.

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 of the Board and its members and the senior management of the Company, so as to prevent them from abusing their authorities and violating the interests of the Company, its shareholders and staff. The size and composition of the 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 its supervision on behalf of the shareholders in respect of the Company's financial matters and the lawfulness and compliance in respect of the discharge of duties by the Directors and senior management of the Company. The members of the Supervisory Committee attended all Board meetings and shareholders' meetings of the Company and diligently performed their supervisory duties.

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

Name	Board	Supervisory Committee	Audit Committee
Directors			
Tan Xuguang	5/5		
Xu Xinyu	5/5		
Zhang Quan	5/5		
Sun Shaojun	5/5		
Yeung Sai Hong	5/5		
Chen Xuejian	5/5		
Yao Yu	5/5		
Li San Yim	5/5		
Tong Jingen	2/2		
Liu Huisheng	3/3		
Zhang Fusheng	5/5		
Han Xiaoqun	5/5		
Julius G. Kiss	5/5		
Independent Non-executive Directors			
Koo Fook Sun, Louis	5/5		2/2
Zhang Xiaoyu	5/5		2/2
Fang Zhongchang	5/5		2/2
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.

Corporate Governance Report

Shareholders Meeting and Investor Relations

The shareholders' meeting is the highest authority of the Company, providing an opportunity for direct communications and building a sound relationship between the Board and the shareholders of the Company. Therefore, the Company places great importance to such meetings. In 2006, the Company convened four general meetings. Matters reviewed and approved at the meetings include the following:

- the Report of the Directors, Report of Supervisory Committee for 2005;
- the profit distribution and final dividend distribution proposals for 2005;
- re-appointment of Directors;
- re-appointment of the external auditors and determination of its remuneration;
- remuneration proposals for Directors and Supervisors;
- renewal of continuing connected transactions;
- approval of the merger with and acquisition of TAGC;
- amendment to the Articles of Association of the Company.

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. (the "Company") and its subsidiaries (collectively referred to as the "Group") set out on pages 47 to 88, which comprise the consolidated balance sheet as at 31st December, 2006, the consolidated income statement, the consolidated statement of changes in equity and the consolidated cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Directors' Responsibility for the Financial Statements

The directors of the Company are responsible for the preparation and the true and fair presentation of these consolidated financial statements in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants and the disclosure requirements of the Hong Kong Companies Ordinance. This responsibility includes designing, implementing and maintaining internal control relevant to the preparation and the true and fair presentation of the consolidated financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit 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. We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance as to whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and true and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the consolidated financial statements.

Independent Auditor's Report

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit 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, 2006 and of the Group's profit and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards 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
17th April, 2007

Consolidated Income Statement

For the year ended 31st December, 2006

	Notes	2006 RMB'000	2005 RMB'000
Turnover	6	**6,633,668**	5,250,735
Cost of sales		**(4,742,383)**	(4,096,408)
Gross profit		**1,891,285**	1,154,327
Other income	7	**99,329**	69,963
Distribution costs		**(485,562)**	(403,968)
Administrative expenses		**(414,059)**	(272,052)
Research and development expenses		**(169,201)**	(94,869)
Other expenses		**(1,617)**	(762)
Share of profit of an associate		**32,094**	941
Finance costs	8	**(63,160)**	(42,978)
Profit before taxation	9	**889,109**	410,602
Income tax expense	10	**(181,099)**	(93,919)
Profit for the year		**708,010**	316,683
Attributable to:			
Equity holders of the Company		**702,695**	315,203
Minority interests		**5,315**	1,480
		708,010	316,683
Dividends	13	**120,450**	103,950
Basic earnings per share	14	**RMB2.13**	RMB0.96

Consolidated Balance Sheet

At 31st December, 2006

	Notes	2006 RMB'000	2005 RMB'000
NON-CURRENT ASSETS			
Property, plant and equipment	15	**1,942,176**	1,608,840
Prepaid lease payments — non-current portion	16	**59,213**	60,491
Intangible assets	17	**140,003**	202,226
Interest in an associate	19	**1,067,731**	561,191
Available-for-sale financial assets	20	**20,000**	20,000
Deposits paid for acquisition of property, plant and equipment	21	**320,565**	143,960
Deferred tax assets	29	**—**	1,850
		3,549,688	2,598,558
CURRENT ASSETS			
Inventories	22	**896,992**	645,578
Trade and bills receivables	23	**1,397,276**	1,162,049
Deposits, prepayments and other receivables	23	**228,494**	122,826
Prepaid lease payments — current portion	16	**1,278**	1,278
Pledged bank deposits	24	**459,653**	371,670
Bank balances and cash	24	**595,386**	709,996
		3,579,079	3,013,397
CURRENT LIABILITIES			
Trade and bills payables	25	**2,465,570**	1,811,506
Other payables and accruals	25	**557,858**	379,253
Amount due to a related party	35(d)	**66,229**	63,272
Tax payable		**195,641**	185,370
Discounted bills with recourse		**—**	235,200
Unsecured bank and other borrowings — due within one year	26	**198,087**	44,241
Warranty provision	27	**47,165**	18,559
		3,530,550	2,737,401
NET CURRENT ASSETS		**48,529**	275,996
TOTAL ASSETS LESS CURRENT LIABILITIES		**3,598,217**	2,874,554

Consolidated Balance Sheet

At 31st December, 2006

	Notes	2006 RMB'000	2005 RMB'000
NON-CURRENT LIABILITIES			
Amount due to a related party	35(d)	**61,510**	123,593
Unsecured bank and other borrowings — due after one year	26	**474,183**	290,000
Deferred tax liabilities	29	**10,267**	—
		545,960	413,593
		3,052,257	2,460,961
CAPITAL AND RESERVES			
Share capital	28	**330,000**	330,000
Reserves		**2,654,562**	2,068,581
Equity attributable to equity holders of the Company		**2,984,562**	2,398,581
Minority interests		**67,695**	62,380
		3,052,257	2,460,961

The consolidated financial statements on pages 47 to 88 were approved and authorised for issue by the Board of Directors on 17th April, 2007 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, 2006

	Attributable to equity holders of the Company									
	Share capital RMB'000	Share premium RMB'000	Capital reserve RMB'000	Statutory surplus reserve RMB'000	Statutory welfare reserve RMB'000	Revaluation reserve RMB'000	Retained profits RMB'000	Total RMB'000	Minority interests RMB'000	Total RMB'000
At 1st January, 2005	330,000	1,106,042	30,607	81,328	40,663	—	598,688	2,187,328	—	2,187,328
Profit for the year, representing total recognised income for the year	—	—	—	—	—	—	315,203	315,203	1,480	316,683
Shares issued by subsidiaries to minority interests	—	—	—	—	—	—	—	—	60,900	60,900
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
Revaluation increase on acquisition of additional interests in an associate and income recognised directly in equity *(Note 30)*	—	—	—	—	—	3,736	—	3,736	—	3,736
Profit for the year	—	—	—	—	—	—	702,695	702,695	5,315	708,010
Total recognised income for the year	—	—	—	—	—	3,736	702,695	706,431	5,315	711,746
Dividends paid	—	—	—	—	—	—	(120,450)	(120,450)	—	(120,450)
Transfer	—	—	—	68,495	—	—	(68,495)	—	—	—
At 31st December, 2006	330,000	1,106,042	30,607	180,614	56,058	3,736	1,277,505	2,984,562	67,695	3,052,257

As stipulated by the relevant regulations of the People's Republic of China (the "PRC"), the aggregate allocations to the statutory surplus reserve is 10% 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").

For and up to 31st December, 2005, the aggregate allocations of the statutory welfare reserve was 5% of the Group's profit after tax under the PRC GAAP. No such statutory allocation is required from 1st January, 2006.

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.

Pursuant to the merger agreement as detailed in note 13, the Company had committed not to declare or pay a dividend or make a distribution to its shareholders which exceed the Company's 2006 interim dividend if the merger was not completed by 30th April, 2007.

Consolidated Cash Flow Statement

For the year ended 31st December, 2006

	Note	2006 RMB'000	2005 RMB'000
OPERATING ACTIVITIES			
Profit before taxation		**889,109**	410,602
Adjustments for:			
Share of profit of an associate		**(32,094)**	(941)
Finance costs		**63,160**	42,978
Interest income		**(10,780)**	(10,246)
Depreciation of property, plant and equipment		**193,662**	109,597
Release of prepaid lease payments		**1,278**	1,278
Amortisation of intangible assets		**62,223**	62,223
(Gain) loss on disposal of property, plant and equipment		**(879)**	489
(Reversal of) impairment loss on trade receivables		**(29,387)**	15,272
Operating cash flows before movements in working capital		**1,136,292**	631,252
Increase in inventories		**(251,414)**	(216,429)
Increase in trade and bills receivables		**(205,840)**	(515,409)
Decrease (increase) in deposits, prepayments and other receivables		**30,206**	(25,828)
Increase (decrease) in trade and bills payables		**654,064**	(144,040)
Increase in other payables and accruals		**176,763**	92,017
Increase in warranty provision		**28,606**	5,563
Cash generated from (used in) operations		**1,568,677**	(172,874)
Tax paid		**(158,711)**	(107,608)
Tax refunded		**—**	8,151
Interest income		**10,780**	10,246
NET CASH FROM (USED IN) OPERATING ACTIVITIES		**1,420,746**	(262,085)
INVESTING ACTIVITIES			
Purchases of property, plant and equipment and deposits paid for acquisition of property, plant and equipment		**(624,023)**	(593,048)
Acquisition of a subsidiary	30	**(684,742)**	—
Increase in pledged bank deposits		**(87,983)**	(37,225)
Proceeds from disposal of property, plant and equipment		**1,299**	250
Investment in an associate		**—**	(560,250)
NET CASH USED IN INVESTING ACTIVITIES		**(1,395,449)**	(1,190,273)

Consolidated Cash Flow Statement

For the year ended 31st December, 2006

	Note	**2006 RMB'000**	2005 RMB'000
FINANCING ACTIVITIES			
Repayments of bank borrowings and discounted bills with recourse		**(395,200)**	(1,225,500)
Dividends paid		**(120,450)**	(103,950)
Repayments to a related party		**(68,445)**	(87,414)
Interest paid		**(53,841)**	(30,843)
New bank and other borrowings raised		**498,029**	634,241
Discounted bills with recourse raised		**—**	1,140,700
Capital contributions from minority shareholders		**—**	60,900
NET CASH (USED IN) FROM FINANCING ACTIVITIES		**(139,907)**	388,134
NET DECREASE IN CASH AND CASH EQUIVALENTS		**(114,610)**	(1,064,224)
CASH AND CASH EQUIVALENTS AT 1ST JANUARY		**709,996**	1,774,220
CASH AND CASH EQUIVALENTS AT 31ST DECEMBER, REPRESENTED BY BANK BALANCES AND CASH		**595,386**	709,996

1. General

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

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

The principal activities of the Group are the manufacture and sale of diesel engines and related parts. The principal activities of its associate and subsidiaries are set out in notes 19 and note 37 respectively.

2. Application of New and Revised Hong Kong Financial Reporting Standards ("HKFRs")

In the current year, the Group has applied, for the first time, a number of new standard, amendments and interpretations ("new HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"), which are either effective for accounting periods beginning on or after 1st December, 2005 or 1st January, 2006. The adoption of the new HKFRSs had no material effect on how the results and the financial position for the current or prior accounting years have been prepared and presented. Accordingly, no prior year adjustment has been required.

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

HKAS 1 (Amendment)	Capital Disclosures[1]
HKFRS 7	Financial Instruments: Disclosures[1]
HKFRS 8	Operating Segments[2]
HK(IFRIC)-INT 7	Applying the Restatement Approach under HKAS29 Financial Reporting in Hyperinflationary Economies[3]
HK(IFRIC)-INT 8	Scope of HKFRS 2[4]
HK(IFRIC)-INT 9	Reassessment of Embedded Derivatives[5]
HK(IFRIC)-INT 10	Interim Financial Reporting and Impairment[6]
HK(IFRIC)-INT 11	HKFRS 2 — Group and Treasury Share Transactions[7]
HK(IFRIC)-INT 12	Service Concession Arrangements[8]

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

2 Effective for annual periods beginning on or after 1st January, 2009.

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

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

2. Application of New and Revised Hong Kong Financial Reporting Standards ("HKFRs") (Continued)

[5] Effective for annual periods beginning on or after 1st June, 2006.

[6] Effective for annual periods beginning on or after 1st November, 2006.

[7] Effective for annual periods beginning on or after 1st March, 2007.

[8] Effective for annual periods beginning on or after 1st January, 2008.

3. 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 Hong Kong Fiancial Reporting Standards 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 the Hong Kong Companies Ordinance.

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and entities (including special purpose entities) controlled by the Company (its subsidiaries). Control is achieved where the Company has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities.

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.

3. Significant Accounting Policies (Continued)

Business combinations

The acquisition of subsidiaries is accounted for using the purchase method. The cost of the acquisition is measured at the aggregate of the fair values, at the date of exchange, of assets given, liabilities incurred or assumed, and equity instruments issued by the Group in exchange for control of the acquiree, plus any costs directly attributable to the business combination. The acquiree's identifiable assets, liabilities and contingent liabilities that meet the conditions for recognition under *HKFRS 3 Business Combinations* are recognised at their fair values at the acquisition date.

Goodwill arising on acquisition is recognised as an asset and initially measured at cost, being the excess of the cost of the business combination over the Group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities recognised. If, after reassessment, the Group's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities exceeds the cost of the business combination, the excess is recognised immediately in profit or loss.

The interest of minority shareholders in the acquiree is initially measured at the minority's proportion of the net fair value of the assets, liabilities and contingent liabilities recognised.

For business combination involves more than one exchange transaction through successive share purchases. Each exchange transaction are treated separately, using the cost of the transaction and fair value information at the date of each exchange transaction, to determine the amount of any goodwill associated with that transaction. Any adjustments to those fair values relating to previously held interests is accounted for as increase in revaluation reserve.

Interest in an associate

An associate is an entity over which the investor has significant influence and that is neither a subsidiary nor an interest in a jointly venture.

The results and assets and liabilities of associates are incorporated in these consolidated 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 net assets of the associates, 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.

Any excess of the cost of acquisition over the Group's share of the net fair value of the identifiable assets, liabilities and contingent liabilities of the associate recognised at the date of acquisition is recognised as goodwill. The goodwill is included within the carrying amount of the investment and is assessed for impairment as part of the investment.

Any excess of the Group's share of the net fair value of the identifiable assets, liabilities and contingent liabilities over the cost of acquisition, after reassessment, is recognised immediately in profit or loss.

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

3. Significant Accounting Policies (Continued)

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.

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.

Construction in progress represents property, plant and equipment in the course of construction for production or for its own use purposes. Construction in progress is carried at cost less any recognised impairment loss. Construction in progress is classified to the appropriate category of property, plant and equipment when completed and ready for intended use. Depreciation of these assets, on the same basis as other property assets, commences when the 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 consolidated 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.

3. Significant Accounting Policies (Continued)

Leasehold land and building

The land and building elements of a lease of land and building are considered separately for the purpose of lease classification, leasehold land which is not expected to pass to the lessee by the end of the lease term is classified as an operating lease unless the lease payment cannot be allocated reliably between the land and building elements, in which case, the entire lease is classified as finance lease.

Borrowing costs

All borrowing costs are recognised as and included in finance costs in the consolidated 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 the respective 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. Exchange differences arising on the retranslation of non-monetary items carried at fair value are included in profit or loss for the period except for differences arising on the retranslation of non-monetary items in respect of which gains and losses are recognised directly in equity, in which cases, the exchange differences are also recognised directly in equity.

Retirement benefit costs

Payments to the state-managed retirement benefit schemes, are charged as expenses when employees have rendered service entitling them to the contributions.

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 consolidated 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. Such assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

3. Significant Accounting Policies (Continued)

Taxation (Continued)

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries and associates, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

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. 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

Intangible assets acquired separately

Intangible assets acquired separately and 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 (see the accounting policy in respect of impairment losses below).

Gains 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 consolidated income statement when the asset is derecognised.

Research and development expenditures

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

The amount initially recognised for internally-generated intangible asset is the sum of the expenditure incurred from the date when the intangible asset first meets the recognition criteria. Where no internally generated intangible asset can be recognised, development expenditure is charged to profit or loss in the year in which it is incurred.

Subsequent to initial recognition, internally-generated intangible asset is reported at cost less accumulated amortisation and accumulated impairment losses, on the same basis as intangible assets acquired separately.

Impairment

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 immediate.

3. Significant Accounting Policies (Continued)

Intangible assets (Continued)

Impairment (Continued)

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 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).

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is calculated using the weighted average method.

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 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 bank deposits and bank balances and cash) 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.

3. Significant Accounting Policies (Continued)

Financial instruments (Continued)

Available-for-sale financial assets

Available-for-sale financial assets are non-derivatives that are either designated or not classified as financial assets at fair value through profit or loss, loans and receivables or held-to-maturity investments.

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 profit or loss 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 as 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.

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.

Financial liabilities are derecognised 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 and payable is recognised in profit or loss.

3. Significant Accounting Policies (Continued)

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 (other than goodwill, intangible assets with indefinite useful lives (see the accounting policies in respect of goodwill and intangible assets above))

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.

4. Critical Accounting Judgements and Key Sources of Estimation Uncertainty

Critical Judgement in Applying the Entity's Accounting Policies

In the process of applying the entity's accounting policies, which are described in note 3, management has made the following judgments that have the most significant effect on the amounts recognised in the financial statements (apart from those involving estimations, which are dealt with below.)

Intangible assets with indefinite useful lives

As detailed in note 17, trademarks with a carrying amounts of RMB108,892,000 have a legal life up to 2012 but are renewable every 10 years at minimal costs. The Directors of the Company considered that these trademarks for all practical purposes have an indefinite useful life and therefore they will not be amortised until their useful life is determined to be finite and they will be tested for impairment annually.

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.

Estimated carrying amounts of intangible assets

Determining whether intangible assets are to be impaired requires an estimation of the value in use of the cash generating units to which intangible assets have been allocated. The value in use calculation requires the Group to estimate the future cash flows expected to arise from the cash-generating unit and a suitable discount rate in order to calculate the present value. As at 31st December, 2006, the carrying amount of intangible assets are approximately RMB140,003,000. Details of the recoverable amount calculation are disclosed in note 18.

4. Critical Accounting Judgements and Key Sources of Estimation Uncertainty (Continued)

Key Sources of Estimation Uncertainty (Continued)

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 accrued with reference to historical cost data for repairs and maintenance, and units of products sold.

5. Financial Instruments

The Group's major financial instruments include trade and bills receivables, deposits, other receivables, pledged bank 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.

Market risk

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.

Fair value interest rate risk
The Group is exposed to fair value interest rate risk relating to pledged bank deposits and fixed rate 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 notes 24 and 26.

Cash flow interest rate risk
The Group's cash flow interest rate risk relates primarily to cash and cash equivalents and variable-rate bank borrowings (see Notes 24 and 26 for details of these items). It is the Group's intention to keep its borrowings at floating rate of interests so as to minimise the cash flow interest rate risk.

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, 2006 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.

5. Financial Instruments (Continued)

Market risk (Continued)

Credit risk (Continued)

The Group has a number of counterparties and customers, however, credit risk of the Group is concentrated on certain major customers. At 31st December, 2006, the five largest receivable balances accounted for approximately 81% of the trade receivable balances. The management considers the credit risk involved is acceptable/properly managed in view of the strong financial background and good credit standing of these customers.

The credit risk on liquid funds is limited because the counterparties are banks in the PRC with high credit rating.

Liquidity risk

In managing liquidity risk, the Group monitors and maintains a level of cash and cash equivalents deemed adequate by the management to finance the Group's operations and mitigate the effects of fluctuations in cash flows. The management monitors the utilisation of bank borrowings and ensures compliance with loan covenants.

In addition to the above, risks relating to financial instruments, 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.

6. Business and Geographical Segments

The Group was principally engaged in the manufacture and sale of diesel engines and related parts and over 90% of the Group's turnover and operating results were derived from the PRC and accordingly, no analysis of business and geographical segment is presented.

Notes to the Consolidated Financial Statements

For the year ended 31st December, 2006

7. Other Income

	2006 RMB'000	2005 RMB'000
Other income includes:		
Gain on sale of scrap and other materials	**11,832**	32,402
Sales and warranty period repair services fee income	**16,330**	21,025
Bank interest income	**10,780**	10,246
Warehouse uploading and logistic services fee income	**8,524**	630
Write back of bad debt provision	**29,387**	—
Gain on disposal of property, plant and equipment	**879**	—
Compensation from China Heavy Duty Track Group Co. Ltd. ("CHDTGL") (note 21)	**13,540**	—
Others	**8,057**	5,660
	99,329	69,963

8. Finance Costs

	2006 RMB'000	2005 RMB'000
Interest on:		
Bank borrowings wholly repayable within five years	**53,841**	30,843
Imputed interest expense on amount due to a related party	**9,319**	12,135
	63,160	42,978

9. Profit Before Taxation

	2006 RMB'000	2005 RMB'000
Profit before taxation has been arrived at after charging (crediting):		
Directors' and Supervisors' emoluments (note 11)	**3,606**	3,874
Staff costs excluding Directors' and Supervisors' emoluments	**328,954**	236,995
Retirement benefits scheme contributions excluding amounts included in Directors' and Supervisors' emoluments	**29,816**	27,328
Total staff costs	**362,376**	268,197
Depreciation of property, plant and equipment	**193,662**	109,597
Release of prepaid lease payments (included in administrative expenses)	**1,278**	1,278
Amortisation of intangible assets (included in administrative expenses)	**62,223**	62,223
Auditors' remuneration	**5,000**	3,000
Impairment loss on trade receivables	**—**	15,272
Cost of inventories recognised as expense	**4,742,383**	4,096,408
Share of tax of an associate (included in share of results of an associate)	**27,383**	(311)
Loss on disposal of property, plant and equipment	**—**	489

Included in the total staff costs is an amount of approximately RMB36,000,000 (2005: RMB3,000,000) relating to bonus accrued for the Group's senior management including directors and supervisors. However, the amounts allocated to each individual have not been determined.

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10. Income Tax Expense

	2006 RMB'000	2005 RMB'000
PRC Enterprise Income Tax:		
Current year	**168,736**	106,379
Under(over)provision in prior years	**246**	(203)
Tax credit	**—**	(10,407)
	168,982	95,769
Deferred tax (note 29)	**12,117**	(1,850)
	181,099	93,919

PRC Enterprise Income companies in the PRC comprising Tax is calculated at the statutory income tax rate of 33% (2005: 33%) of the assessable profit of the Group, except that the assessable profit derived from the production in the high technology development zone is taxed at a preferential rate of 15% (2005: 15%) pursuant to the following governmental notices:

(i) 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

(ii) 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% (2005: 15%).

The Company's Hong Kong branch is subject to Hong Kong Profits Tax at 17.5% (2005: 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 was entitled to a total income tax credit of approximately RMB10,407,000 for the year ended 31st December, 2005 in respect of eligible additions of domestic machinery and equipment for production use. No tax credit has been granted for the year.

According to 《山東省人民政府國有資產監督管理委員會》 (魯國資分配函(2006)45號), the Company has received an approval for 工效掛鈎方案 in respect of its eligible deduction on salaries.

10. Income Tax Expense (Continued)

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

	2006 RMB'000	2005 RMB'000
Profit before taxation	**889,109**	410,602
Tax at PRC Enterprise Income Tax rate of 33% (2005: 33%)	**293,406**	135,499
Tax effect of share of results of an associate	**(10,591)**	(311)
Tax effect of expenses not deductible for tax purpose	**51,727**	11,310
Effect of tax exemption and concession granted to the Company	**(130,733)**	(26,803)
Effect of different tax rate for the Company's Chongqing branch	**(22,956)**	(15,166)
Under(over)provision in prior years	**246**	(203)
Tax credit	**—**	(10,407)
	181,099	93,919

11. Directors' and Supervisors' Emoluments

The remuneration paid or payable to each of the 16 (2005: 16) Directors and 3 (2005: 3) Supervisors were as follows:

2006

	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	Liu Huisheng RMB'000	Zhang Fusheng RMB'000	Julius G. Kiss RMB'000	Han Xiaoqun RMB'000	Tong Jingen RMB'000	Zhang Xiaoyu RMB'000	Koo Fook Sun, Louis RMB'000	Fang Zhongchang 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	300	300	300	50	50	50	50	50	50	50	50	25	100	138	100	50	108	50	2,251
Retirement benefits scheme contribution	3	3	3	3	–	–	–	–	–	–	–	–	–	–	–	–	–	3	–	15
Performance related incentive payments	228	278	278	278	–	–	–	–	–	–	–	–	–	–	–	–	–	278	–	1,340
Total emoluments	611	581	581	581	50	50	50	50	50	50	50	50	25	100	138	100	50	389	50	3,606

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 Zhongchang 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

Note: The performance related incentive payment is determined as a percentage of the Group's profit for the each of the two years ended 31st December, 2006.

12. Employees' Emoluments

Of the five individuals with the highest emoluments in the Group, four (2005: four) were Executive Directors of the Company whose emoluments are included in the disclosures in note 11 above. The emoluments of the remaining one (2005: one) individual was as follows:

	2006 RMB'000	2005 RMB'000
Salaries and allowances	**1,900**	1,352
Retirement benefits scheme contributions	**12**	12
	1,912	1,364

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 2005 or 2006.

13. Dividends

	2006 RMB'000	2005 RMB'000
Final, paid — 2005: RMB0.165 (2004: RMB0.15) per share	**54,450**	49,500
Interim, paid — 2006: RMB0.20 (2005: RMB0.165) per share	**66,000**	54,450
	120,450	103,950

The Board has resolved that it will not propose a final dividend for the Company for 2006 until the Merger (as defined in note 19) is completed. After the completion of the Merger, the Board will meet again to consider proposing a final dividend (if any) for the Company for 2006 for the consideration and approval by the 2006 annual general meeting of the Company.

14. Basic Earnings Per Share

The calculation of basic earnings per share attributable to the equity holders of the Company is based on the profit for the year attributable to equity holders of the Company of approximately RMB702,695,000 (2005: RMB315,203,000) and on 330,000,000 (2005: 330,000,000) ordinary shares in issue during the year.

No diluted earnings per share has been presented as there is no potential ordinary share issue during both years.

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15. 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, 2005	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
Additions	520,909	—	3,161	2,708	640	527,418
Transfer	(191,285)	36,985	130,037	9,594	14,669	—
Disposals	—	—	(66)	(392)	(2,350)	(2,808)
At 31st December, 2006	637,857	388,859	1,143,308	80,441	85,822	2,336,287
DEPRECIATION						
At 1st January, 2005	—	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
Charged for the year	—	19,976	145,737	16,508	11,441	193,662
Eliminated on disposals	—	—	(36)	(278)	(2,074)	(2,388)
At 31st December, 2006	—	40,842	292,199	34,002	27,068	394,111
CARRYING VALUE						
At 31st December, 2006	637,857	348,017	851,109	46,439	58,754	1,942,176
At 31st December, 2005	308,233	331,008	863,678	50,759	55,162	1,608,840

The above items of property, plant and equipment, other than construction in progress, are depreciated 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 erected on land held under medium-term land use rights in the PRC.

16. Prepaid Lease Payments

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

	2006 RMB'000	2005 RMB'000
Analysed for reporting purposes as:		
Current	**1,278**	1,278
Non-current	**59,213**	60,491
	60,491	61,769

17. Intangible Assets

	Trademarks RMB'000 (Note i)	Technologies RMB'000 (Note ii)	Total RMB'000
COST			
At 1st January, 2005, 31st December, 2005 and 31st December, 2006	119,264	222,965	342,229
AMORTISATION			
At 1st January, 2005	10,372	67,408	77,780
Charge for the year	—	62,223	62,223
At 31st December, 2005	10,372	129,631	140,003
Charge for the year	—	62,223	62,223
At 31st December, 2006	10,372	191,854	202,226
CARRYING VALUE			
At 31st December, 2006	108,892	31,111	140,003
At 31st December, 2005	108,892	93,334	202,226

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For the year ended 31st December, 2006

17. Intangible Assets (Continued)

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 has both the intention and ability to renew the trademarks continuously. As a result, the useful life of the trademarks is considered by the management of the Group as having an indefinite 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 18.

(ii) The cost of technologies is amortised on a straight-line basis over 4.5 years.

18. Impairment Testing on Trademarks with Indefinite Useful Lives

As explained in note 6, 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, trademarks with indefinite useful lives at 31st December, 2006 set out in note 17 are fully allocated to this unit.

During the year ended 31st December, 2006, management of the Group determines that there are no impairment of its CGU containing trademarks with indefinite useful lives.

That calculation uses cash flow projections based on financial budgets approved by management for the next five years and a discount rate of 12%. The cash flows for the following five years are extrapolated based on an estimated growth rate of 10% which is in line with the anticipated growth rate of the motor vehicle industry in the PRC. This rate does not exceed the average long-term growth rate for the relevant markets. Other key assumptions for the value in use calculations relate to the estimation of cash inflows/outflows which include budgeted sales and gross margin, such estimation is based on the CGU's past performance and management's expectations for the market development. 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.

19. Interest in an Associate

	2006 RMB'000	2005 RMB'000
Cost of investment in associate (Note):		
Listed in the PRC	**1,046,872**	—
Unlisted in the PRC	**—**	560,250
Share of post-acquisition profit	**20,859**	941
	1,067,731	561,191

At 31st December, 2005, the Group held 45% in Weichai Power (Weifang) Investment Co., Limited ("Weifang Investment") which is an investment company established in the PRC whose principal asset is 28.12% interest in TAGC (as defined below) in the form of domestic shares. On 30th June, 2006, the Group completed the acquisition of the remaining 55% interest in Weifang Investment not already owned by it. Accordingly, Weifang Investment became a wholly-owned subsidiary of the Group and TAGC became a direct associate of the Group. TAGC is a company established in the PRC with its A shares listed on Shenzhen Stock Exchange.

On 12th November, 2006, the Company entered into an agreement ("Merger Agreement") with TAGC for the purpose of merging the Company and TAGC and the issue of new A Shares by the Company (which will be listed on the Shenzhen Stock Exchange upon Completion of the merger) ("Weichai A Shares") to the shareholders of TAGC (other than Weifang Investments) at the ratio of one Weichai A Share to 3.53 of TAGC held by such shareholders of TAGC ("Merger"). The Merger will be accompanied by a cash alternative to the shareholders of TAGC who elected not to received in whole (or in part) the Weichai A shares at the rate of RMB5.05 per TAGC. The Company itself will not be a cash alternative provider and it shall be arranged by the sponsor to the listing of the Weichai A share.

After the completion of the Merger, (i) the shares of TAGC will be cancelled; (ii) TAGC's assets will be absorbed into and its liabilities assumed by the Company; (iii) TAGC will be deregistered and will cease to exist; and (iv) the Weichai A shares will be listed on the Shenzhen Stock Exchange while the H shares of the Company continue to be listed on the Stock Exchange. The shareholder of A shares and H shares shall bear the same rights. The proposed merger is expected to be completed in the second quarter of 2007.

Note:

Included in the cost of investment in associate is goodwill of approximately RMB599,552,000 (2005: RMB278,286,000) attributable to the acquisitions of TAGC. The movement of goodwill is set out below.

	RMB'000
COST	
Arising on acquisition of Weifang Investment during the year ended 31st December, 2005	278,286
Arising on acquisition of remaining interest in Weifang Investment in 2006 (note 30)	321,266
At 31st December, 2006	599,552

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19. Interest in an Associate (Continued)

Further details of the Group's associate at 31st December, 2006 are as follow:

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
Torch Automobile Group Co., Ltd. ("TAGC") (湘火炬汽車集團股份有限公司)	Incorporated	The PRC	RMB936,287,000	28.12%	Manufacture and sale of heavy trucks and related parts and components

The summarised financial information is set out below:

	TAGC 2006 RMB'000	Weifang Investment 2005 RMB'000
As at 31st December		
Total assets	**10,280,493**	1,247,714
Total liabilities	**(6,713,704)**	(623)
Group's share of net assets of the associate	**468,179**	282,905
For the year ended 31st December		
Revenue	**11,221,963**	4,052
Profit for the year attributable to equity holders of the associate	**191,791**	2,091
Group's share of results of associate for the year	**32,094**	941

20. Available-for-sale Financial Assets

Available-for-sale financial assets at the balance sheet date represented an investment in 5.71% (2005: 5.71%) of the registered capital of 福田雷沃國際重工股份有限公司 ("福田雷沃") (formerly known as 山東福田重工股份有限公司), a private entity established in the PRC. These are measured at cost less impairment at each balance sheet date because the range of reasonable fair value estimates is significant and the Directors of the Company are of the opinion that the fair value cannot be measured reliably.

21. Deposits Paid for Acquisition of Property, Plant and Equipment

At the balance sheet date, the amount represented deposits paid to certain vendors for the acquisition of property, plant and equipment. Details of the related capital commitments are set out in note 31.

At 31st December, 2005, 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.

CHDTGL was the holding company of 濰坊柴油機廠 Weifong Diesel Engine Works ("Weichai Factory") which held 23.53% interest in the Company as at 31st December, 2006. 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 Weichai Factory whereby CHDTGL transferred its entire ownership in Weichai Factory to Shandong SASAC for its direct holding. CHDTGL ceased to have direct or indirect interest in the Company thereafter.

On 23rd December, 2006, the Company entered into a settlement agreement with CHDTGL whereby CHDTGL would refund the above-mentioned deposit and also pay a compensation of RMB13,540,000 to the Company for the termination of the framework agreement. Accordingly, the deposit was classified as a current asset at 31st December, 2006.

22. Inventories

	2006 RMB'000	2005 RMB'000
Raw materials and consumables	**296,209**	340,362
Work-in-progress	**96,983**	81,041
Finished goods	**503,800**	224,175
	896,992	645,578

23. Trade and Bills Receivables/Deposits, Prepayments and other Receivables

Trade and bills receivables

	2006 RMB'000	2005 RMB'000
Third party customers	**43,892**	151,850
Related party and connected person customers (Note i)	**124,586**	251,128
Less: accumulated impairment	**(8,032)**	(42,584)
	160,446	360,394
Bills receivable (Note ii)	**1,236,830**	801,655
	1,397,276	1,162,049

Notes:

(i) The related party customers represented Weichai Factory, CHDTGL, 龍工(福建)機械有限公司 (Longgong Fujian Machinery Company Limited ("Longgong Fujian")) and 龍工(上海)機械有限公司 (Longgong Shanghai Machinery Company Limited ("Longgong Shanghai")) and 廣西柳工集團有限公司 ("Guangxi Liugong").

Details of the relationship with Fujian Longgong, Shanghai Longgong and Guangxi Liugong are set out in note 35(a).

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

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:

	2006 RMB'000	2005 RMB'000
Within 90 days	**1,163,198**	974,679
Between 91 to 180 days	**104,279**	180,522
Between 181 to 365 days	**30,187**	2,916
Over 365 days	**99,612**	3,932
	1,397,276	1,162,049

The carrying amounts of the Group's trade and bills receivables approximate their fair value at the balance sheet date.

Deposits, prepayments and other receivables

The carrying amount of the Group's deposits and other receivables approximate their fair values at the balance sheet date.

24. Pledged Bank Deposits/Bank Balances and Cash

Pledged bank deposits

The pledged bank deposits carry prevailing bank interest rates of 1.65% (2005: 1.10%) per annum. The pledge will be released upon the settlement of the relevant bank borrowings. The carrying amount of the bank deposits approximates its fair value at the balance sheet date.

Bank balances and cash

Bank balances and cash, which carry prevailing market interest rates ranging from 0.72% to 1.62% (2005: ranging from 0.30% to 1.10%) per annum, 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 approximate their fair values at the balance sheet date.

25. Trade and Bills Payables/Other Payables and Accruals

Trade and bills payables

	2006 RMB'000	2005 RMB'000
Third party suppliers	**1,357,532**	1,184,615
Related party and connected person suppliers (Note i)	**26,227**	75,411
	1,383,759	1,260,026
Bills payable (Note ii)	**1,081,811**	551,480
	2,465,570	1,811,506

Notes:

(i) The related party suppliers represented Weichai Factory and CHDTGL.

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

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25. Trade and Bills Payables/Other Payables and Accruals (Continued)

Trade and bills payables (Continued)

	2006 RMB'000	2005 RMB'000
An analysis of trade and bills payables as at the balance sheet date is as follows:		
Within 90 days	**1,672,493**	1,312,896
Between 91 to 180 days	**685,237**	439,327
Between 181 to 365 days	**15,360**	13,123
Over 365 days	**92,480**	46,160
	2,465,570	1,811,506

The carrying amount of the Group's trade and bills payables approximates their carrying amount at the balance sheet date.

Other payables and accruals

The carrying amount of the Group's other payable approximates their carrying amount at the balance sheet date.

26. Unsecured Bank and Other Borrowings

	2006 RMB'000	2005 RMB'000
Unsecured bank borrowings	**348,087**	334,241
Unsecured other borrowing	**324,183**	—
	672,270	334,241
The maturity profile of the above bank borrowings is as follows:		
On demand or within one year	**198,087**	44,241
More than one year, but not exceeding two years	**474,183**	240,000
More than two years, but not exceeding three years	**—**	50,000
	672,270	334,241
Less: Amounts due within one year shown under current liabilities	**(198,087)**	(44,241)
	474,183	290,000

26. Unsecured Bank and Other Borrowings (Continued)

Unsecured bank borrowings include fixed rate borrowings of RMB270,000,000 (2005: RMB310,000,000) and variable rate bank borrowings of USD10,000,000 (equivalent to approximately RMB78,087,000) (2005: RMB24,241,000) which is denominated in currencies other than the functional currencies of the relevant group entities.

The Group's variable-rate borrowings carry interest at London Interbank Offered Rate. Interest is repriced every six months.

The ranges of effective interest rates (which are also equal to contracted interest rates) on the Group's bank borrowings are as follows:

	2006	2005
Effective interest rate per annum:		
Fixed-rate borrowings	**5.6% to 6.1%**	5.6% to 5.8%
Variable-rate borrowings	**6.5%**	5.3%

During the year, the Group obtained new loans in the amount of RMB498,029,000. The loans bear interest at market rates and will be repayable in 2008.

The carrying amount of the Group's bank borrowings approximates to the corresponding fair value at the balance sheet date.

27. 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
Additional provision in the year	
Utilisation of provision	233,474
At 31st December, 2006	(204,868)
	47,165

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.

28. Share Capital

The Company's share capital structure at the balance sheet date is as follows:

	Number of shares		Registered, issued and
	Domestic shares	H shares	fully paid
	'000	'000	RMB'000
At 1st January, 2005, 31st December, 2005 and 31st December, 2006	203,500	126,500	330,000

Each share has a par value of RMB1.

29. Deferred Taxation

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

	Trademarks	Others	Total
	RMB'000	RMB'000	RMB'000
Charge (credit) to income statement for the year ended 31st December, 2005 and at 31st December, 2005	5,133	(6,983)	(1,850)
Charge to income statement for the year	5,134	6,983	12,117
At 31st December, 2006	10,267	—	10,267

30. Acquisition of a Subsidiary

On 30th June, 2006, the Group acquired 55% further equity interest in Weifang Investment for a cash consideration of RMB684,750,000. Prior to the acquisition, Weifang Investment was owned as to 45% by the Group. Following the acquisition, Weifang Investment became a wholly-owned subsidiary of the Company. This transaction has been accounted for using the purchase method of accounting.

30. Acquisition of a Subsidiary (Continued)

The net assets acquired in the transaction are as follows:

	Acquiree's carrying amount before combination RMB'000	Fair value adjustment RMB'000	Fair value RMB'000
Net assets acquired:			
Interest in an associate	439,017	8,303	447,320
Other receivables	215,874	—	215,874
Bank balances and cash	8	—	8
Other payables	(1,842)	—	(1,842)
	653,057	8,303	661,360
The Group's share of net assets of Weifang Investment at 30th June, 2006			(294,140)
Fair value adjustment attributable to the Group's 45% interest in Weifang Investment			(3,736)
			363,484
Goodwill (note 19)			321,266
Total consideration			684,750
Satisfied by:			
Cash consideration paid			684,750
Net cash outflow arising on acquisition:			
Cash consideration paid			(684,750)
Cash and cash equivalents acquired			8
			(684,742)

The goodwill arising on the acquisition of Weifang Investment is attributable to the anticipated future operating synergies from the combination of TAGC with the Group.

The acquisition of Weifang Investment contributed RMB17,775,000 million to the Group's profit for the period between the date of acquisition and the balance sheet date.

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30. Acquisition of a Subsidiary (Continued)

Had the acquisition been completed on 1st January, 2006, the Group's revenue for the year would have no material impact and profit for the year would have been increased to RMB730.1 million. The pro forma information is for illustrative purposes only and is not necessarily an indication of revenue and results of operations of the Group that actually would have been achieved had the acquisition been completed on 1st January, 2006, nor is it intended to be a projection of future results.

31. Capital Commitments

	2006 RMB'000	2005 RMB'000
Capital expenditure in respect of acquisition of property, plant and equipment contracted for but not provided in the financial statements	**57,230**	234,912
Capital expenditure in respect of the acquisition of property, plant and equipment authorised but not contracted for	**249,221**	—

32. Operating Lease Commitments

The Group as lessee

	2006 RMB'000	2005 RMB'000
Minimum lease payments paid under operating leases during the year:		
Plant and machinery	**30,117**	30,117
Premises	**26,595**	20,522
	56,712	50,639

32. Operating Lease Commitments (Continued)

The Group as lessee (Continued)

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

	2006 RMB'000	2005 RMB'000
Within one year	**49,634**	50,355
In the second to fifth year inclusive	**24,235**	73,218
	73,869	123,573

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.

33. Pledged of Assets

At 31st December, 2006, bank deposits of approximately RMB459,653,000 (2005: RMB371,670,000) were pledged to banks to secure bills payable issued and bills receivables discounted by the Group.

At 31st December, 2006, bills receivable of approximately RMB34,300,000 (2005: nil) were pledged to banks to secure bills payable issued by the Group.

34. Post Balance Sheet Events

The following significant events took place subsequent to the balance sheet date:

(a) On 23rd January, 2007, the Company issued short term debentures in an aggregate principal amount of RMB900 million in the PRC (the "Debentures"). The Debentures, being zero coupon with a face value of RMB100 each, were priced and issued at a discount at RMB96.31 each with maturing on 25th January 2008. The proceeds from the Debentures will be used as working capital of the Company for its production and operational needs.

Notes to the Consolidated Financial Statements

For the year ended 31st December, 2006

35. Connected and Related Parties Disclosure

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

	2006 RMB'000	2005 RMB'000
Connected persons and related parties		
Weichai Factory (Note i):		
Sales of diesel engines and related parts	**275,107**	306,056
Purchases of materials	**111,146**	48,137
General services fee paid	**8,131**	15,588
Utility services fee paid	**90,071**	113,850
Sales and warranty period repair services fee income	**16,057**	21,025
Purchases of property, plant and equipment	**418**	145
Disposal of property, plant and equipment	**39**	71
Warehouse uploading and logistic services fee income	**796**	—
Rental paid for certain premises, machinery and equipment	**42,814**	42,814
Chongqing Weichai Factory (Note ii):		
Sales of diesel engines and related parts	**39,276**	48,673
Purchase of materials	**6,232**	8,121
General services fee paid	**7,172**	7,983
Utility services fee paid	**14,012**	15,322
Processing services fee paid	**63,070**	60,042
Rental paid for certain premises, machinery and equipment	**3,404**	3,404
Connected persons		
Longgong Fujian (Note iii):		
Sales of diesel engines and related parts	**97,355**	81,714
Longgong Shanghai (Note iii):		
Sales of diesel engines and related parts	**429,983**	268,060
Guangxi Liugong Group (Note iv):		
Sales of diesel engines and related parts	**320,075**	266,338
Related parties, other than connected persons		
CHDTGL (prior to 20th March, 2006, see note 22):		
Sales of diesel engines and related parts	**57,764**	1,452,069
Purchases of materials	**3,904**	72,610
Purchases of finished diesel engines	**—**	409,791
TAGC and its subsidiaries:		
Sales of diesel engines and related parts	**547,666**	—

35. Connected and Related Parties Disclosure (Continued)

Notes:

(i) At 31st December, 2006, Weichai Factory was interested in 23.53% in the Company and is the single largest shareholder of the Company. Mr. Tan Xuguang, the Chairman of the Board of Directors and the general manger of Weichai Factory was interested in the transaction.

(ii) Chongqing Weichai Factory is wholly owned by Weichai Factory.

(iii) Longgong Fujian and Longgong Shanghai are wholly owned subsidiaries of China Infrastructure Machinery Holdings Limited ("CIMHL") a listed company in Hong Kong, in which Mr. Li San Yim, a non-executive director and Ms. Ni Yingying, the wife of Mr. Li Sau Yim, both have beneficial interest in CIMHL and the Company.

(iv) Shanghai Longgong is owned as to 39.49% by Mr. Li San Yim, a non-executive director and as to 60.51% by Ms. Ni Yingying, the wife of Mr. Li San Yim, both have significant influence in Fujian Longgong.

(v) Guangxi Liugong is a promoter of the Company and holds 1.36% interest in the Company at 31st December, 2006. Guangxi Liugong together with its affiliates are collectively referred as the "Guangxi Liugong Group".

(b) Compensation of key management personnel

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

	2006 RMB'000	2005 RMB'000
Short-term benefits	**5,265**	3,636
Post-employment benefits	**24**	238
	5,289	3,874

(c) Details of the trading balance with related parties are set out in notes 23 and 25. These trading balances arose from the transactions set out in 35(a).

35. Connected and Related Parties Disclosure (Continued)

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

(i) *Name of related company*

	2006 RMB'000	2005 RMB'000
Amount due to a related party:		
Weichai Factory	**127,739**	186,865

The amount is unsecured and interest-free.

Note: As at 31st December, 2006, included in the above balance was an amount of approximately RMB127,739,000 (2005: approximately RMB182,719,000) which represented the balance of the consideration payable by the Company for the acquisition of technologies and trademarks from Weichai Factory. The amount is repayable as follows:

	2006 RMB'000	2005 RMB'000
Within one year	**66,229**	59,126
In the second year	**61,510**	62,083
In the third to fifth year inclusive	**—**	61,510
	127,739	182,719
Less: Amount due for settlement within one year (including under current liabilities)	**(66,229)**	(59,126)
	61,510	123,593

The effective interest rate for the amount due to a related party of RMB127,739,000 is approximately 5% per annum.

At 31st December, 2006, the fair value of the amount due to a related part was approximately RMB127,739,000, 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 (2005: RMB80,000,000) payable to CHDTGL at 31st December, 2005 are set out in note 21.

35. Connected and Related Parties Disclosure (Continued)

(e) 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 (d) 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.

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

	2006 RMB'000	2005 RMB'000
Trade sales	**2,093,558**	1,394,513
Trade purchases	**1,074,915**	598,002
Amounts due to other state-controlled entities	**277,649**	121,652
Amounts due from other state-controlled entities	**12,036**	140,659

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.

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For the year ended 31st December, 2006

36. Retirement Benefits

Defined contribution plans

The employees of the Group are members of a state-managed retirement benefit scheme operated by the government in the PRC. The Group is required to contribute a fixed percentage of payroll costs to the retirement benefit scheme to fund the benefits. The only obligation of the Group with respect to the retirement benefit scheme is to make the specified contributions.

37. Particulars of Subsidiaries

The following table lists the subsidiaries of the Group as at 31st December, 2006:

Name of subsidiary	Form of business structure	Country of registration/ Principal place of operation	Paid up registered capital	Proportion of registered capital held by the Company directly	Principal activities
			RMB		
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 to group companies
濰柴動力(濰坊)油品有限公司	Incorporated	The PRC	5,200,000	52%	Trading of lubricant oil products to group companies
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 to group companies
濰柴動力(濰坊)投資有限公司	Incorporated	The PRC	1,245,000,000	100%	Investment holding in 28.12% equity interest in TAGC which is principally engaged in the manufacture and sale of heavy duty trucks and vehicle parts
濰柴動力(上海)投資有限公司	Incorporated	The PRC	47,500,000	95%	Inactive
濰柴動力(濰坊)鑄鍛有限公司	Incorporated	The PRC	20,000,000	100%	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

	For the year ended 31st December,				
	2002	2003	2004	2005	**2006**
	RMB'000	RMB'000	RMB'000	RMB'000	**RMB'000**
	(audited)	(audited)	(audited)	(audited)	**(audited)**
RESULTS					
Turnover	1,880,368	3,555,670	6,155,779	5,250,735	**6,633,668**
Profit before taxation	224,677	455,493	738,738	410,602	**889,109**
Income tax expense	(57,132)	(178,025)	(205,484)	(93,919)	**(181,099)**
Profit for the year	167,545	277,468	533,254	316,683	**708,010**
Attributable to:					
Equity holders of the parent	167,545	277,468	533,254	315,203	**702,695**
Minority interests	—	—	—	1,480	**5,315**
	167,545	277,468	533,254	316,683	**708,010**
Dividends	—	20,859	72,075	103,955	**120,450**
Basic earnings per share (in RMB)	2.01	1.29	1.73	0.96	**2.13**

Financial Summary

	As at 31st December,				
	2002	2003	2004	2005	**2006**
	RMB'000	RMB'000	RMB'000	RMB'000	**RMB'000**
	(audited)	(audited)	(audited)	(audited)	**(audited)**
ASSETS AND LIABILITIES					
Total assets	705,268	2,371,908	4,914,308	5,611,955	**7,128,767**
Total liabilities	(487,797)	(1,897,408)	(2,757,587)	(3,150,994)	**(4,076,510)**
Capital and reserves	217,471	474,500	2,156,721	2,460,961	**3,052,257**
Equity attributable to equity holders of the Company	217,471	474,500	2,156,721	2,398,581	**2,984,562**
Minority interests	—	—	—	62,380	**67,695**
	217,471	474,500	2,156,721	2,460,961	**3,052,257**