WEICHAI

濰柴動力股份有限公司

WEICHAI POWER CO., LTD.

(a joint stock limited company incorporated in the People's Republic of China with limited liability)

(Stock Code: 2338)

ANNOUNCEMENT OF 2005 ANNUAL RESULTS

The board (the "Board") of directors (the "Directors") of Weichai Power Co., Ltd. (the "Company") is pleased to announce the audited consolidated financial results of the Company and its subsidiaries (collectively referred to as the "Group") for the year ended 31st December, 2005.

FINANCIAL HIGHLIGHTS

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

CHAIRMAN'S STATEMENT

Dear Shareholders,

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

1. REVIEW OF OPERATIONS

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

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

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

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

2. DIVIDEND

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

3. ACQUISITION AND CONSOLIDATION

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

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

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

4. DEVELOPMENT OPPORTUNITIES FOR THE COMPANY IN 2006

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

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

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

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

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

Tan Xuguang
Chairman and Chief Executive Officer

CONSOLIDATED INCOME STATEMENT
FOR THE YEAR ENDED 31ST DECEMBER, 2005

	NOTES	**2005** **RMB'000**	2004 RMB'000 (restated)
Turnover	3	**5,250,735**	6,155,779
Cost of sales		**(4,096,408)**	(4,651,073)
Gross profit		**1,154,327**	1,504,706
Other income	4	**69,963**	64,937
Distribution costs		**(403,968)**	(391,838)
Administrative expenses		**(272,052)**	(301,062)
Research and development expenses		**(94,869)**	(82,370)
Other expenses		**(762)**	(2,476)
Share of results of an associate		**941**	—
Finance costs	5	**(42,978)**	(53,159)
Profit before tax		**410,602**	738,738
Income tax expense	6	**(93,919)**	(205,484)
Profit for the year		**316,683**	533,254
Attributable to:			
Equity holders of the parent		**315,203**	533,254
Minority interests		**1,480**	—
		316,683	533,254
Dividends	7	**103,950**	72,075
Basic earnings per share	8	**RMB0.96**	RMB1.73

CONSOLIDATED BALANCE SHEET
AT 31ST DECEMBER, 2005

	NOTES	**2005** ***RMB'000***	2004 *RMB'000* *(restated)*
NON-CURRENT ASSETS			
Property, plant and equipment		**1,608,840**	911,933
Prepaid lease payments — non-current portion		**60,491**	61,769
Intangible assets		**202,226**	264,449
Interest in an associate	9	**561,191**	—
Available-for-sale financial assets		**20,000**	—
Investment securities		**—**	20,000
Deposits paid for acquisition of property, plant and equipment		**143,960**	358,155
Deferred tax assets		**1,850**	—
		2,598,558	1,616,306
CURRENT ASSETS			
Inventories	10	**645,578**	429,149
Trade and bills receivables	11	**1,162,049**	661,912
Deposits, prepayments and other receivables		**122,826**	96,998
Prepaid lease payments — current portion		**1,278**	1,278
Pledged bank deposits		**371,670**	334,445
Bank balances and cash		**709,996**	1,774,220
		3,013,397	3,298,002
CURRENT LIABILITIES			
Trade and bills payables	12	**1,811,506**	1,955,546
Other payables and accruals		**379,253**	287,236
Amount due to a related party		**63,272**	90,525
Tax payable		**185,370**	189,058
Discounted bills with recourse		**235,200**	—
Unsecured bank borrowings — due within one year	13	**44,241**	20,000
Warranty provision		**18,559**	12,996
		2,737,401	2,555,361
NET CURRENT ASSETS		**275,996**	742,641
TOTAL ASSETS LESS CURRENT LIABILITIES		**2,874,554**	2,358,947
NON-CURRENT LIABILITIES			
Amount due to a related party		**123,593**	202,226
Unsecured bank borrowings — due after one year	13	**290,000**	—
		413,593	202,226

	NOTES	2005 RMB'000	2004 RMB'000 (restated)
		2,460,961	2,156,721

	NOTES	2005 RMB'000	2004 RMB'000 (restated)
CAPITAL AND RESERVES			
Share capital		**330,000**	330,000
Reserves		**2,068,581**	1,826,721
Equity attributable to equity holders of the parent		**2,398,581**	2,156,721
Minority interests		**62,380**	—
		2,460,961	2,156,721

1. GENERAL

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

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

The principal activities of the Group are the manufacture and sale of diesel engines and related parts.

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

In the current year, the Group has applied, for the first time, a number of new Hong Kong Financial Reporting Standards ("HKFRSs"), Hong Kong Accounting Standards ("HKASs") and Interpretations (hereinafter collectively referred to as "new HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA") that are effective for accounting periods beginning on or after 1st January, 2005. The application of the new HKFRSs has resulted in a change in the presentation of the consolidated income statement, consolidated balance sheet and consolidated statement of changes in equity. The changes in presentation have been applied retrospectively. The adoption of the new HKFRSs has resulted in changes to the Group's accounting policies in the following areas that have an effect on how the results for the current and prior accounting years are prepared and presented:

Financial Instruments

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

Classification and measurement of financial assets and financial liabilities

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

Prior to 31st December, 2004, the Group classified and measured its equity securities in accordance with the benchmark treatment of Statement of Standard Accounting Practice 24 ("SSAP 24"). Under SSAP 24, investments in debt or equity securities are classified as "investment securities", "other investments" or "held-to-maturity investments" as appropriate. "Investment securities" are carried at cost less impairment losses (if any) while "other investments" are measured at fair value, with unrealised gains or losses included in profit or loss. Held-to-maturity investments are carried at amortised cost less impairment losses (if any). From 1st January, 2005 onwards, the Group has classified and measured its equity securities in accordance with HKAS 39. Under HKAS 39, financial assets are classified as "financial assets at fair value through profit or loss", "available-for-sale financial assets", "loans and receivables", or "held-to-maturity financial assets". "Financial assets at fair value through profit or loss" and "available-for-sale financial assets" are carried at fair value, with changes in fair values recognised in profit or loss and equity respectively. Available-for-sale equity investments that do not have quoted market prices in an active market and whose fair value cannot be reliably measured and derivatives that are linked to and must be settled by delivery of such unquoted equity instruments are measured at cost less impairment after initial recognition. "Loans and receivables" and "held-to-maturity financial assets" are measured at amortised cost using the effective interest method after initial recognition.

On 1st January, 2005, the Group classified and measured its equity securities in accordance with the transitional provisions of HKAS 39. Investment securities of RMB20,000,000 which are unlisted equity securities whose fair value cannot be measured reliably were reclassified as available-for-sale investments and are stated at cost less impairment losses (see Note 2A for the financial impact).

Financial assets and financial liabilities other than debt and equity securities

From 1st January, 2005 onwards, the Group has classified and measured its financial assets and financial liabilities other than debt and equity securities (which were previously outside the scope of SSAP 24) in accordance with the requirements of HKAS 39. Classification of financial assets are mentioned above. Financial liabilities are generally classified as "financial liabilities at fair value through profit or loss" or "other financial liabilities". Financial liabilities at fair value through profit or loss are measured at fair value, with changes in fair value being recognised in profit or loss directly. Other financial liabilities are carried at amortised cost using the effective interest method after initial recognition.

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

Cost of equity transactions

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

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

Derecognition

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

Owner-occupied Leasehold Interest in Land

In previous years, owner-occupied leasehold land and buildings were included in property, plant and equipment and measured using the cost model. In the current year, the Group has applied HKAS 17 Leases. Under HKAS 17, the land and buildings elements of a lease of land and buildings are considered separately for the purposes of lease classification, unless the lease payments cannot be allocated reliably between the land and buildings elements, in which case, the entire lease is generally treated as a finance lease. To the extent that the allocation of the lease payments between the land and buildings elements can be made reliably, the leasehold interests in land are reclassified to prepaid lease payments under operating leases, which are carried at cost and amortised over the lease term on a straight-line basis. This change in accounting policy has been applied retrospectively (see Note 2A for the financial impact).

Summary of the Effects of the Changes in Accounting Policies

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

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

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

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

3. BUSINESS AND GEOGRAPHICAL SEGMENTS

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

4. OTHER INCOME

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

5. FINANCE COSTS

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

6. INCOME TAX EXPENSE

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

PRC Enterprise Income Tax is calculated at the statutory income tax rate of 33% (2004: 33%) of the assessable profit of the Group, except on assessable profit derived from the production in the high technology development zone, which is taxed at a preferential rate of 15% since current financial year pursuant to the Notice of Ministry of Finance and the State Administration of Taxation concerning certain preferential policies on enterprise income tax (財政部、國家稅務總局《關於企業所得稅若干優惠政策的通知》) and the Notice of the State Administration of Taxation concerning proper implementation of the continuing administrative work after the cancellation delegation of the examination and approval procedure for enterprise income tax (國家稅務總局《關於做好已取消和下放管理的企業所得稅審批項目後續管理工作的通知》).

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

The Company's Hong Kong branch is subject to Hong Kong Profits Tax at 17.5% (2004: 17.5%) on its estimated assessable profit. No provision for Hong Kong Profits Tax has been made as the branch had no assessable profit for the year.

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

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

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

7. DIVIDENDS

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

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

8. BASIC EARNINGS PER SHARE

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

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

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

9. INTEREST IN AN ASSOCIATE

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

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

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

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

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

10. INVENTORIES

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

11. OTHER FINANCIAL ASSETS

Trade and bills receivables

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

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

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

The related party customers represented CHDTGL, Fujian Longgong and Guangxi Liugong. At 31st December, 2005, the related party customers also included TAGC and its affiliates.

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

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

Bank balances and cash

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

12. OTHER FINANCIAL LIABILITIES

Trade and bills payables

	2005	2004
	RMB'000	*RMB'000*
Third party suppliers	**1,184,615**	1,212,276
Related party suppliers	**75,411**	42,466
	1,260,026	1,254,742
Bills payable	**551,480**	700,804
	1,811,506	1,955,546
An analysis of trade and bills payables as at the balance sheet date is as follows:		
Within 90 days	**1,312,896**	1,294,745
Between 91 to 180 days	**439,327**	644,684
Between 181 to 365 days	**13,123**	10,044
Over 365 days	**46,160**	6,073
	1,811,506	1,955,546

Related party suppliers represented China Heavy Duty Truck Group.

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

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

13. UNSECURED BANK BORROWINGS

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

Unsecured bank borrowings include approximately RMB310,000,000 (2004: RMB20,000,000) fixed-rate borrowings which carry interest ranging from 5.6% to 5.8% (2004: at 5.1%). The remaining unsecured bank borrowings loans of approximately USD3,000,000 (equivalent to approximately

RMB24,241,000) (2004: Nil) are denominated in currencies other than functional currencies of the relevant group entities. These borrowings are variable-rate borrowings which carry interest at 1.2% over London Interbank Offered Rate.

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

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

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

MANAGEMENT DISCUSSION AND ANALYSIS

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

Industry Review

Heavy-duty trucks industry

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

Construction machinery — Wheel loaders industry

During the year under review, the sale of the wheel loaders with a load capacity of 5 tones (and above), being the second-most important market of the Company, slowed down as a result of the implementation of series of austerity measures with credit-tightening policies by the PRC central government. A sizeable proportion of the sales of construction machinery with a load capacity of 5 tonnes (and above) in the PRC was concentrated in a few manufacturers, which also included the major customers of the Company, such as: 廣西柳工機械股份有限公司 (Guangxi Liugong Machinery Co., Ltd) ("Guangxi Liugong"), 上海龍工機械有限公司 (Shanghai Longgong Machinery Company Limited) ("Shanghai Longgong"),

福建龍岩工程機械(集團)有限公司 (Fujian Longyan Construction (Group) Company Limited) ("Fujian Longyan"), 山東臨工工程機械股份有限公司 (Shandong Lingong Construction Machinery Co., Ltd) ("Shandong Lingong"), etc.

Sales of WD615 and WD618 series engines

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

Sales of diesel engine parts

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

FINANCIAL REVIEW

Turnover

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

Gross profit and gross profit margin

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

Distribution expenses

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

Administration expenses

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

Net profit margin

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

Taxation

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

PRC Enterprise Income Tax is calculated at the statutory income tax rate of 33% (2004: 33%) of the assessable profit of the Group, except on assessable profit derived from the production in the high technology development zone, which is taxed at a preferential rate of 15% since current financial year pursuant to the Notice of Ministry of Finance and the State Administration of Taxation concerning certain preferential policies on enterprise income tax (財政部、國家稅務總局《關於企業所得稅若干優惠政策的通知》) and the Notice of the State Administration of Taxation concerning proper implementation of the continuing administrative work after the cancellation delegation of the examination and approval procedure for enterprise income tax (國家稅務總局《關於做好已取消和下放管理的企業所得稅審批項目後續管理工作的通知》).

Liquidity and financial resources

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

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

Capital structure

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

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

Business and geographical segments

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

Pledge of assets

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

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

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

Foreign exchange risk exposure

As almost all of the operations of the Group are located in the PRC. Its operating expenses as well as most of capital expenditure of the Group were denominated in RMB for the year. Therefore, the Group did not experience any material difficulties or effects on its operations or liquidity as a result of fluctuations in currency exchange during the Period. The Directors believe that the Group will have sufficient foreign exchange currency to meet its foreign exchange requirements.

Contingent liabilities

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

Capital commitments

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

Capital expenditure

During the year, the Group's capital expenditure amounted to approximately RMB807.2 million (2004: RMB774.9 million). This was mainly attributable to the acquisition and installation of new production lines, modification of existing production lines, research and development of Euro III diesel engines, but excluding the formation of the joint venture — 濰柴動力(濰坊)投資有限公司 (Weichai Power (Weifang) Investment Co., Ltd.) — for the acquisition of approximately 28.12% of shareholding interest in TAGC, a company listed on the Shenzhen Stock Exchange.

Human resources practice

As at 31st December, 2005, the Company had a total of over 6,550 employees. As the Company believes people are the cornerstone of its success, the Company has long been concerned with its employees' development by organizing various training courses to broaden their horizon. During the year, some of the senior management of the Company attended training courses organised by reputational domestic and overseas universities. Employees are remunerated based on their performance, experience and the prevailing industry practices, with compensation policies and packages being reviewed on a yearly basis. Bonus and commission may also be awarded to employees based on internal performance evaluation.

The Group has established an incentive scheme for its senior management. Under this scheme, up to 5% of the audited annual profit after tax of the Group will be paid as bonus to the Directors and other senior management staff each year.

CLOSURE OF REGISTER OF MEMBERS

The Register of Members of the Company will be closed from 30th May, 2006 to 30th June, 2006 (both days inclusive) during which no transfer of shares will be registered. In order to qualify for the attendance and voting at the forthcoming annual general meeting and for the final dividend, all documents on transfer of H Shares of the Company, accompanied by the relevant share certificates, must be lodged with the Company's Hong Kong H-Share Registrar and Transfer Office, Computershare Hong Kong Investor Services Limited at 46/F., Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong, not later than 4:00 p.m. on 29th May, 2006.

ARRANGEMENT TO PURCHASE SHARES OR DEBENTURES

At no time during the year was the Company or any of its subsidiaries a party to any arrangements to enable the Directors of the Company to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate.

PRE-EMPTIVE RIGHTS

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

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES OF THE COMPANY

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

AUDIT COMMITTEE

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

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

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

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

COMPLIANCE WITH THE MODEL CODE

During the year, the Company has adopted a code of conduct regarding securities transactions by Directors on terms no less exacting than the required standard set out in the Model Code as set out in Appendix 10 to the Listing Rules (the "Code"). Having made specific enquiry of all Directors, the Directors have confirmed that they have complied with the required standard set out in the Code for the year under review.

SUFFICIENCY OF PUBLIC FLOAT

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

AUDITORS

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

APPROVAL OF THE CONSOLIDATED FINANCIAL STATEMENTS

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

PUBLICATION OF THE RESULTS ON WEBSITE

The financial information required to be disclosed under paragraphs 46 (1) to 46 (6) of Appendix 16 of the Listing Rules will be published on the website of the Stock Exchange at www.hkex.com.hk in due course.

On behalf of the Board
Tan Xuguang
Chairman and CEO

Hong Kong, 19th April, 2006

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

Four executive directors, namely Tan Xuguang (Chairman), Mr. Xu Xinyu, Mr. Sun Shaojun, Mr. Zhang Quan, eight non-executive directors, namely Mr. Yeung Sai Hong, Mr. Chen Xue jian, Mr. Yao yu, Mr. Li San Yim, Mr. Tong Jingen, Ms. Zhang Fusheng, Mr. Julius G. Kiss, Ms. Han Xiaoqun and three independent non-executive directors, namely Mr. Koo Fook Sun, Louis, Mr. Zhang Xiaoyu and Mr. Fang Zhong Chang.

Please also refer to the published version of this announcement in ***South China Morning Post.***