THIS CIRCULAR IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION

If you are in any doubt as to any aspect of this circular, you should consult your stockbroker or other registered dealer in securities, bank manager, solicitor, professional accountant or other professional adviser.

If you have sold or transferred all your overseas listed foreign shares ("**H Shares**") in Weichai Power Co., Ltd., you should at once hand this circular to the purchaser or transferee or to the bank, stockbroker or other agent through whom the sale or transfer was effected for transmission to the purchaser or transferee.

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)

MAJOR TRANSACTION INVOLVING THE ACQUISITIONS OF FURTHER EQUITY INTERESTS IN WEICHAI POWER (WEIFANG) INVESTMENT CO., LTD.

A notice convening the Annual General Meeting of Weichai Power Co., Ltd. (the "Company"), at which the resolution for approving the Acquisitions (as defined in this circular) will be considered, as it was published and despatched to shareholders of the Company on 15th May, 2006, is set out again in this circular for reference.

If you intend to attend the Annual General Meeting, please complete and return the reply slip (the reply slip was sent to the shareholders of the Company on 15th May, 2006) in accordance with the instructions printed thereon as soon as possible and in any event by no later than 10th June, 2006.

Whether or not you intend to attend the Annual General Meeting, you are requested to complete the proxy form (the proxy form was sent to the shareholders of the Company on 15th May, 2006) in accordance with the instructions printed thereon and return it to Computershare Hong Kong Investor Services Limited, the H Share registrar of the Company in Hong Kong, at 46th Floor, Hopewell Centre, 183 Queen's Road East, Hong Kong not less than 24 hours before the time appointed for the holding of the meeting. Completion and return of the form of proxy will not preclude you from attending and voting in person at the meeting or any adjournment thereof should you so wish.

14th June, 2006

CONTENTS

In this circular, unless the context requires otherwise, the following expressions have the following meanings:

"Acquisitions"	the acquisitions of the 55% equity interests (in aggregate) by the Company under the Agreements
"Annual General Meeting" or "AGM"	the annual general meeting of the Company to be held on 30th June, 2006 to consider, among other things, the Agreements
"Articles of Association"	the articles of association of the Company
"Agreements"	the sale and purchase agreements all dated 12th May, 2006 entered into between the Company and the Other Shareholders, respectively, in relation to the transfer of the equity interests in JV Co from the Other Shareholders to the Company
"associate"	has the meaning ascribed to it under the Listing Rules
"Board"	board of Directors
"CHDTGL"	中國重型汽車集團有限公司 (China Heavy Duty Truck Group Co., Ltd.), a PRC state-owned enterprise
"Company"	濰柴動力股份有限公司 (Weichai Power Co., Ltd.), a joint stock limited company incorporated in the PRC with limited liability
"Completion"	completion of the transfer of the equity interests in JV Co from the Other Shareholders to the Company pursuant to the terms and conditions of the Agreements
"connected person"	has the meaning ascribed to it under the Listing Rules
"Directors"	directors of the Company
"Enlarged Group"	the Group and JV Co
"Group"	the Company and its subsidiaries before Completion
"H Shares"	the overseas listed foreign shares in the capital of the Company with a RMB denominated par value of RMB1.00 each which are subscribed for and traded in Hong Kong Dollars, and they are listed on the main board of the Stock Exchange
"Hangqi"	杭州汽車發電機廠 (Hangzhou Motor Engine Factory), a legal person established in the PRC and is wholly owned by CHDTGL
"Hong Kong"	the Hong Kong Special Administrative Region of the PRC
"HK$" or "HK Dollar"	Hong Kong dollar, the lawful currency of Hong Kong from time to time

"JV Co"	潍柴動力(潍坊)投資有限公司 (Weichai Power (Weifang) Investment Co., Ltd.) a limited liability company established in the PRC on 2nd August, 2005
"Latest Practicable Date"	1st June, 2006, being the latest practicable date for the purpose of ascertaining certain information contained in this circular before its despatch
"Listing Rules"	the Rules Governing the Listing of Securities on the Stock Exchange
"Other Shareholders"	all of the holders (other than the Company) of equity in JV Co
"PRC"	the People's Republic of China, which, for the purpose of this circular, unless otherwise specified, excludes Hong Kong, the Macau Special Administrative Region of the PRC and Taiwan
"Prospectus"	the prospectus dated 26th February, 2004 issued by the Company relating to the initial public offering and listing of its H Shares on the Stock Exchange
"RMB"	Renminbi, the lawful currency of the PRC
"SFGC"	陝西法士特齒輪有限責任公司 (Shaanxi Fast Gear Co., Ltd.), a company established in the PRC and is a 51% subsidiary of TAGC
"SFO"	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong)
"Shaanxi Zhongqi"	陝西重型汽車有限公司 (Shaanxi Heavy Duty Motor Company Limited), a company established in the PRC and is a 51% subsidiary of TAGC
"Shareholders"	shareholders of the Company
"Stock Exchange"	The Stock Exchange of Hong Kong Limited
"Supervisor(s)"	the supervisor(s) of the Company
"TAGC"	湘火炬汽車集團股份有限公司 (Torch Automobile Group Co., Ltd.), a company established in the PRC and the shares of which are listed on the Shenzhen Stock Exchange
"TAGC Group"	TAGC and its subsidiaries and associated companies
"TSPC"	株州湘火炬火花塞有限責任公司 (Torch Spark Plug Co., Ltd.), a company established in the PRC and is a 97.5% subsidiary of TAGC
"Weichai Factory"	濰坊柴油機廠 (Weifang Diesel Engine Works), a legal person established in the PRC and is a substantial shareholder and a promoter of the Company. Weichai Factory is wholly owned by CHDTGL

If there is any inconsistency between the Chinese name of the entities mentioned in this circular and their English translation, the Chinese version shall prevail.

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)

Executive Directors:
Tan Xuguang *(Chairman)*
Xu Xinyu
Sun Shaojun
Zhang Quan

Non-executive Directors:
Yeung Sai Hong
Chen Xuejian
Yao Yu
Li San Yim
Tong Jingen
Zhang Fusheng
Julius G. Kiss
Han Xiaoqun

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

Supervisors:
Sun Chengping
Wang Yong
Jiang Jianfang

Registered office:
197, Section A
Fu Shou East Street
High Technology Industrial Development Zone
Weifang City
Shandong Province
The People's Republic of China

Principal place of business in Hong Kong:
Suite 2501–2, 25th Floor
One International Finance Centre
1 Harbour View Street Central
Hong Kong

14th June, 2006

To: Holders of overseas listed foreign shares
*("**H Shares**") in the capital of Weichai Power Co., Ltd.*

Dear Sir or Madam,

MAJOR TRANSACTION INVOLVING THE ACQUISITIONS OF FURTHER EQUITY INTERESTS IN WEICHAI POWER (WEIFANG) INVESTMENT CO., LTD.

INTRODUCTION

On 12th May, 2006, the Directors announced that the Company entered into the Agreements with the Other Shareholders to acquire further equity interests in JV Co such that, subject to the satisfaction of the relevant conditions precedent and Completion taking place, the Company's equity interest in JV Co will be increased from 45% to 100%.

The purpose of this circular is to give you further information regarding the Agreements and to seek your approval of the Agreements at the AGM, a notice of which has been published and despatched to shareholders of the Company on 15th May, 2006 and is set out in this circular again for reference.

AGREEMENTS

Date:

12th May, 2006

Parties:

(a) The Company (as purchaser), the principal business of which is the research and development, manufacturing and sale of high speed heavy duty diesel engines.

(b) The Other Shareholders (as vendors), the principal business of each of them is investment holding. To the best of the knowledge, information and belief of the Directors, having made all reasonable enquiries, each of the Other Shareholders and their respective ultimate beneficial owners are third parties independent of, and are not connected persons of, the Company as at the Latest Practicable Date.

Transaction:

The Company has agreed to purchase and each of the Other Shareholders has agreed to sell their respective equity interests in JV Co as follows:

Name of vendor	**Percentage of equity interest in JV Co to be sold**	**Consideration payable by the Company** *(RMB)*
山東海化集團有限公司 (Shandong Haihua Group Ltd.)	30%	373,500,000
濰坊亞星集團有限公司 (Weifang Yaxing Group Ltd.)	18%	224,100,000
龍口市金龍電器有限公司 (Longkou Golden Electrics Co. Ltd.)	7%	87,150,000

Based on the above figures, the aggregate consideration payable by the Company amounts to RMB684,750,000.

The consideration payable by the Company to each Other Shareholder represents the cost of investment of such Other Shareholder. The cost of investment of the Company in the original 45% equity interests in JV Co is RMB560,250,000.

No deposit is payable by the Company to the Other Shareholders and the consideration shall be payable by the Company in cash at Completion. The consideration will be financed by the Company's internal resources.

The equity interests to be acquired by the Company (in aggregate) represent 55% of the registered capital of JV Co. Following Completion, JV Co will become a 100% wholly-owned subsidiary of the Company.

Conditions precedent:

Completion shall be conditional upon obtaining the approval of the Shareholders as required under the Listing Rules and completion of the relevant PRC procedures, if required, on or before 31st August, 2006 (or such later date as may be agreed between the Company and the Other Shareholders). Such relevant PRC procedures include the filing of the change in the shareholding of JV Co with the Administration of Industry and Commerce, notification to the China Securities and Regulatory Commission and such other procedures as may be required by the Other Shareholders in relation to their sale of their respective equity interests in JV Co.

JV CO

The sole business and asset of JV Co is its holding of an approximately 28.12% interest in TAGC, a company listed on the Shenzhen Stock Exchange. For the remaining 71.88% interest in TAGC, as at the Latest Practicable Date, insofar as the Directors are aware, 7.95% is held by 株洲國有資產經營管理有限公司 (Zhuzhou State-owned Assets Administration Management Company Limited) and 63.93% is held by other public shareholders.

TAGC, a company established under PRC law, is listed on the Shenzhen Stock Exchange. The TAGC Group is one of PRC's leading vehicles and components manufacturing groups and is principally engaged in the manufacture and sale of heavy duty trucks and vehicle parts. TAGC ranked 18th amongst the top 500 machinery enterprises in PRC (中國機械工業500強) and 170th amongst the 500 largest enterprises in PRC (中國企業500強) in 2004. Amongst TAGC's subsidiaries are Shaanxi Zhongqi (a 51% subsidiary of TAGC), TSPC (a 97.5% subsidiary of TAGC) and SFGC (a 51% subsidiary of TAGC).

REASONS FOR AND THE BENEFITS OF THE ACQUISITIONS

Given the complementary nature of the business of the Company and those of the TAGC Group, the Directors are of the view that the Acquisitions will allow the Company (through JV Co) to enhance its position as the single largest shareholder of TAGC and exploit further potential business opportunities and synergies with the TAGC Group in the near future. As such, it is expected that the Acquisitions will contribute positively to the future development of the Company. Accordingly, the Board (including the independent non-executive Directors) considers that the terms of the Agreements are fair and reasonable and in the interests of the Shareholders as a whole.

MAJOR TRANSACTION

Following Completion, JV Co will become a wholly-owned subsidiary of the Company. Based on the percentage ratio calculations under the Listing Rules, the Acquisitions together constitute a major transaction of the Company and are therefore subject to the prior approval of the Shareholders.

FINANCIAL EFFECTS OF THE ACQUISITIONS

As JV Co will be wholly-owned by the Company after (but subject to) Completion, the financial results of JV Co will be consolidated into those of the Company.

Based on the financial information on JV Co set out in the accountants' report of JV Co in Appendix II to this circular and the relevant Hong Kong Financial Reporting Standards adopted by the Group, the Group will recognise a gain of approximately RMB2.5 million as a result of the possible negative goodwill created upon the completion of the Acquisitions. The said gain is expected to be recorded in the consolidated accounts of the Group for the year ending 31st December, 2006.

The audited consolidated total assets of the Group as at 31st December, 2005 were RMB5,611,955,000. As ascertained from the unaudited pro forma assets and liabilities statements of the Enlarged Group (as set out in Appendix III to this circular), after the completion of the Acquisitions, the pro forma total assets of the Enlarged Group would amount to RMB5,618,359,000, representing an increase of approximately 0.11% as compared to the audited consolidated total assets of the Group as at 31st December, 2005. The audited total liabilities of the Group as at 31st December, 2005 were RMB3,150,994,000 and after the completion of the Acquisitions, the pro forma total liabilities of the Enlarged Group would amount to RMB3,153,754,000, representing an increase of approximately 0.09% as compared to the audited consolidated total liabilities of the Group as at 31st December, 2005.

As at 31st December, 2005, the audited share capital and reserves of the Group were RMB2,460,961,000 (including minority interest of RMB62,380,000) in aggregate and after the completion of the Acquisitions, the pro forma share capital and reserves of the Enlarged Group would be RMB2,464,605,000 (including minority interest of RMB62,380,000), representing an increase of approximately 0.15%.

We have noted that the accountants' report of JV Co set out in appendix II to this circular stated that:

(i) the reporting accountants were engaged to examine the underlying financial statements ("**Underlying Financial Information**") of the JV Co as prepared by JV Co's PRC accountants and carry out such additional procedures as necessary in accordance with the Auditing Guideline "Prospectuses and the reporting accountant" as recommended by the Hong Kong Institute of Certified Public Accountants ("HKICPA");

(ii) the reporting accountants further stated that the amount of RMB3,453,062 included in the Underlying Financial Information represented the JV Co's share of TAGC's profit for the period from 2nd August, 2005 (the date of establishment of JV Co) to 31st December, 2005 (the "**Relevant Period**"), and an amount of RMB1,027,810,640 represented the JV Co's interest in TAGC at 31st December, 2005, and that they were unable to carry out the procedures they considered necessary on the relevant financial information of TAGC in order to satisfy themselves that these amounts were not materially misstated in the context of their report in appendix II; and

(iii) in view of the significance of the matter set out in paragraph (ii) above, the reporting accountants were unable to form an opinion as to whether the financial information on JV Co as set out in appendix II gave a true and fair view of the state of affairs of the JV Co as at 31st December, 2005 and of its profit and cash flows for the Relevant Period.

As the reporting accountants were not the auditors of TAGC, the Directors have noted that for the purpose of preparing their report on JV Co, the reporting accountants did not perform the relevant procedures on TAGC, and the Directors agree that as a result the reporting accountants were unable to form an opinion as to whether the financial information on JV Co as set out in appendix II gave a true and fair view of the state of affairs of the JV Co as at 31st December, 2005 and of its profit and cash flows for the Relevant Period. However, as the consideration payable by the Company for the Acquisitions was determined after arm's length negotiations between the Company and the Other Shareholders and based on the cost of investment of the Other Shareholders, and the Directors' views that the Acquisitions will allow the Company (through JV Co) to enhance its position as the single largest shareholder of TAGC and exploit further potential business opportunities and synergies with the TAGC Group in the near future, the Directors are of the view that the reporting accountants' report on JV Co as set out in appendix II does not have any impact on the Acquisitions or the consideration payable by the Company under the Agreements. The Directors are further of the view that the terms of the Agreements are fair and reasonable and in the interests of the Shareholders as a whole.

The results of TAGC incorporated into the financial information set out in the accountants' report of JV Co in appendix II to this circular are derived from the management financial information of TAGC made up for the period from 11th August, 2005 (the effective date of JV Co's acquisition of its interest in TAGC) to 31st December, 2005, and such management financial information has been reviewed by the PRC auditors of TAGC. As the said management financial information was included in the audited consolidated financial statements of TAGC for the year ended 31st December, 2005, and such audited consolidated financial statements were prepared in accordance with the generally accepted accounting principles of the PRC without qualification, and TAGC is a Shenzhen A share listed company, the Directors believe that it is reasonable to include the results of TAGC (as they are currently presented) in the accountants' report of JV Co as set out in appendix II to this circular. The Directors further believe that as the figure representing JV Co's profit during the Relevant Period as appeared in note 20 to the audited consolidated financial statements of the Company for the year ended 31st December, 2005 was unqualified, the figure for JV Co's share of profit in TAGC as set out in appendix II to this circular should not be misleading.

FINANCIAL AND TRADING PROSPECTS OF THE GROUP

As stated in the section headed "Reasons for and the benefits of the Acquisitions" above, the entering into of the Agreements and the completion of the Acquisitions would substantially increase the Company's (through JV Co) shareholding and further enhance the Company's (through JV Co) position as the single largest shareholder in TAGC.

TAGC is listed on the Shenzhen Stock Exchange and the TAGC Group is one of the PRC's leading truck and truck components manufacturing groups. The Board has been reviewing the business operations and financial position of the TAGC Group with a view to integrating its core business and further consolidating its truck and spare parts manufacturing business into those of the Company. The Board believes the Acquisitions would substantially enhance the Company's fundamental competitive edge in its business segment of supplying diesel engines to the heavy duty trucks industry.

Looking forward, the Directors believe that the Acquisitions will help create synergies to the operations of the Group as it would better enable the Group to implement cost control measures through the sharing of customer bases, sourcing and distributing channels and after-sales services centres with the TAGC Group. The consolidation of the sourcing requirements of the Group and TAGC Group is also expected to further enhance their bargaining power.

WORKING CAPITAL

The Directors are of the opinion that, upon completion of the Acquisitions contemplated in this Circular and after taking into account the Enlarged Group's existing cash and bank balances as well as the present available banking facilities, the Enlarged Group will have sufficient working capital to satisfy its present requirements in the absence of unforeseen circumstances.

INDEBTEDNESS

As at the close of business on 31st March, 2006, being the latest practicable date prior to the printing of this Circular, the Enlarged Group had outstanding bank borrowings of approximately RMB410,733,000 (of which RMB20,000,000 was secured). In addition, the Enlarged Group had bills payable of approximately RMB455,701,000 and amount due to a related party of approximately RMB195,634,000 (at nominal value).

Save as aforesaid or as otherwise disclosed herein, and apart from intra-group liabilities, the Enlarged Group did not have outstanding at the close of business on 31st March, 2006 any loan capital issued and outstanding or agreed to be issued, bank overdrafts, loans or other similar indebtedness, liabilities under acceptances or acceptable credit, debentures, mortgages, charges, hire purchases commitments, guarantees or other material contingent liabilities.

MANAGEMENT DISCUSSION AND ANALYSIS

JV Co is an investment holding company established in the PRC, and its sole business and asset is the holding of an approximately 28.12% interest in TAGC. For the period from 2nd August, 2005 (being the date of establishment of JV Co) to the Latest Practical Date (both dates inclusive), there was no material change in JV Co's business or assets. The only principal income of JV Co in the near future is expected to be the dividend received or receivable (if any) from TAGC. After the completion of the Acquisitions, JV Co will become a wholly-owned subsidiary of the Company.

Liquidity and financial resources

As at the Latest Practical Date, the net cash and cash equivalents of JV Co amounted to approximately RMB11,305,000. As JV Co was established as an investment holding company for the purpose of holding its approximately 28.12% equity interest in TAGC, and it does not have any trading activities, JV Co is currently expected to have sufficient financial resources to fund its existing operations.

Capital structure and gearing ratio

It is the Company's intention to maintain an appropriate mix of equity and debt for JV Co so as to ensure an efficient capital structure from time to time. As at the Latest Practical Date, the JV Co did not have any debts and its gearing ratio (total debt/total equity) was nil.

Significant investments

JV Co is an investment holding company established for the purpose of holding its approximately 28.12% equity interest in TAGC. Accordingly, JV Co's only significant investment is its approximately 28.12% equity interest in TAGC. JV Co reported a profit after taxation of approximately RMB4,585,000 for the period from 2nd August, 2005 (being the date of its establishment) to 31st December, 2005 (both dates inclusive), and had a net asset value of approximately RMB1,249,585,000 as at 31st December, 2005.

The Directors believe that the Acquisitions will help create synergies to the operations of the Group as it would better enable the Group to implement cost control measures through the sharing of customer bases, sourcing and distributing channels and after-sales services centres with the TAGC Group. The consolidation of the sourcing requirements of the Group and TAGC Group is also expected to further enhance their bargaining power.

Material acquisitions, segmental information, employees and their remuneration, charges on assets, exposure to fluctuations in exchange rates and contingent liabilities

JV Co is an investment holding company established for the purpose of holding its approximately 28.12% equity interest in TAGC, and for the period from 2nd August, 2005 to 31st December, 2005 (being the date to which the accounts of JV Co, as set out in Appendix II to this circular, are made up):

(a) JV Co did not have any subsidiary and the only associated company of JV Co was TAGC;

(b) JV Co did not have any business segment;

(c) apart from its directors, JV Co did not have any employees. The directors of JV Co did not receive any form of remuneration;

(d) save as stated in the accountants' report of JV Co in Appendix II to this circular, JV Co did not charge any of its assets;

(e) all the transactions of JV Co were dominated in RMB, and JV Co did not have any exposure to fluctuations in foreign exchange; and

(f) TAGC did not have any material contingent liabilities.

Future plans

The Directors currently do not have any plan to change the business of JV Co after the completion of the Acquisitions, and, accordingly, the Directors expect that JV Co will continue to be an investment holding company for the purpose of holding the Group's investment in TAGC.

RECOMMENDATION

Having considered the reasons set out herein, the Directors are of the opinion that the terms of the Agreements are fair and reasonable and in the interests of the Shareholders as a whole. Accordingly, the Directors recommend the Shareholders to vote in favor of the ordinary resolution regarding the Acquisitions to be proposed at the forthcoming AGM.

AGM

A notice convening the AGM as published and despatched to shareholders of the Company on 15th May, 2006 is set out in this circular again for reference. No Shareholder is required to abstain from voting (by way of poll) in respect of the resolution for approval of the Agreements at the AGM. The procedure for demanding a poll is also set out in Appendix IV to this circular.

If you intend to attend the AGM, please complete and return the reply slip (the reply slip was sent to the Shareholders on 15th May, 2006) in accordance with the instructions printed thereon as soon as possible and in any event by no later than 10th June, 2006.

Whether or not you intend to attend the AGM, you are requested to complete the proxy form (the proxy form was sent to the Shareholders on 15th May, 2006) in accordance with the instructions printed thereon and return it to Computershare Hong Kong Investor Services Limited, the H Share registrar of the Company in Hong Kong, at 46th Floor, Hopewell Centre, 183 Queen's Road East, Hong Kong not less than 24 hours before the time appointed for the holding of the AGM. Completion and return of the form of proxy will not preclude you from attending and voting in person at the meeting or any adjournment thereof should you so wish.

FURTHER INFORMATION

Your attention is also drawn to the additional information set out in the appendices to this circular.

Yours faithfully,
For and on behalf of
the Board of Directors
Tan Xuguang
Chairman and CEO

A. FINANCIAL SUMMARY

The following is a summary of the audited consolidated results and audited consolidated balance sheet of the Group for the three years ended 31st December, 2005:

	Year ended 31st December, 2005 *RMB'000*	**Year ended 31st December, 2004** *RMB'000 (restated)*	**Year ended 31st December, 2003** *RMB'000 (originally stated)*
Turnover	5,250,735	6,155,779	3,555,670
Profit before tax	410,602	738,738	455,493
Income tax expense	(93,919)	(205,484)	(178,025)
Profit for the year	316,683	533,254	277,468
Attributable to:			
Equity holders of the parent	315,203	533,254	277,468
Minority interests	1,480	—	—
	316,683	533,254	277,468

	As at 31st December, 2005 *RMB'000*	**As at 31st December, 2004** *RMB'000 (restated)*	**As at 31st December, 2003** *RMB'000 (originally stated)*
ASSETS AND LIABILITIES			
Total assets	5,611,955	4,914,308	2,371,908
Total liabilities	3,150,994	2,757,587	1,897,408
	2,460,961	2,156,721	474,500
Equity attributable to equity holders of the parent	2,398,581	2,156,721	474,500
Minority interests	62,380	—	—
	2,460,961	2,156,721	474,500

Note: The audited financial statements of the Group for the three years ended 31st December, 2003, 2004 and 2005 have been prepared in accordance with accounting principles generally accepted in Hong Kong and comply with accounting standards issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"). The HKICPA has issued a number of new Hong Kong Financial Reporting Standards and Hong Kong Accounting Standards which are effective for accounting periods beginning on or after 1st January, 2005.

The adoption of the new Hong Kong Financial Reporting Standards had no significant impact on the Group's financial position as at 31st December, 2003.

B. AUDITED FINANCIAL INFORMATION

The following is a summary of the audited consolidated financial statements of the Group as extracted from pages 42 to 86 of the annual report of the Group for the year ended 31st December, 2005.

Consolidated Income Statement
For the year ended 31st December, 2005

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

Consolidated Balance Sheet
At 31st December, 2005

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

Consolidated Balance Sheet
At 31st December, 2005

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

Consolidated Statement of Changes in Equity
For the year ended 31st December, 2005

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

As stipulated by the relevant regulations of the People's Republic of China (the "PRC"), the aggregate allocations to the statutory surplus reserve and statutory welfare reserve are 10% and 5% respectively of the Group's profit after tax under the relevant accounting principles and financial regulations applicable to companies established in the PRC (the "PRC GAAP").

According to the provision of Articles of Association of the Company and its subsidiaries, the statutory surplus reserve shall only be used for making up losses, capitalisation into share capital and expansion of the relevant entity's production and operation. The statutory welfare fund is used for the collective welfare of the relevant entity's staff and workers.

According to the Company's Articles of Association, distribution of profit by the Company is determined with reference to the profit as reported under the PRC GAAP or Hong Kong Financial Reporting Standards, whichever is less.

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

Consolidated Cash Flow Statement
For the year ended 31st December, 2005

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

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

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

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

1. GENERAL

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

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

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

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

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

Financial Instruments

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

Classification and measurement of financial assets and financial liabilities

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

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).

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

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

	2005	**2004**
	RMB'000	*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)	**Adjustments**	**As at 31.12.2004 (restated)**	**Adjustments**	**As at 1.1.2005 (restated)**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*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

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

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

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

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

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

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

3. CHANGES OF ACCOUNTING ESTIMATES

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

4. SIGNIFICANT ACCOUNTING POLICIES

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

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

Basis of consolidation

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

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

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

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

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

Interest in an associate

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

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

Revenue recognition

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

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

Income from repairs are recognised when services are provided.

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

Property, plant and equipment

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

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

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

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

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

Leasing

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

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

Borrowing costs

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

Foreign currencies

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

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

Retirement benefit costs

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

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

Taxation

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

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

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

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

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

Intangible assets

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

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

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

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

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

Research and development expenditures

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

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

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

Inventories

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

Financial instruments

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

Financial assets

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

Loans and receivables

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

Available-for-sale financial assets

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

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

Financial liabilities and equity

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

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

Other financial liabilities

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

Equity instruments

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

Derecognition

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

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

Provisions

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

Impairment loss

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

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

5. KEY SOURCES OF ESTIMATION UNCERTAINTY

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

Impairment on trade receivables

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

Impairment on intangible assets

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

Intangible assets with finite useful lives

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

Warranty expenses

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

6. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

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

Currency risk

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

Credit risk

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

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

Interest rate risk

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

Commodity price risk

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

7. BUSINESS AND GEOGRAPHICAL SEGMENTS

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

8. OTHER INCOME

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

9. FINANCE COSTS

	2005 *RMB'000*	2004 *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

10. INCOME TAX EXPENSE

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

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

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

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

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

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

11. PROFIT FOR THE YEAR

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

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

12. DIRECTORS' EMOLUMENTS AND EMPLOYEES' EMOLUMENTS

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

2005

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

2004

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

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

13. EMPLOYEES' EMOLUMENTS

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

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

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

14. DIVIDENDS

	2005	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.

15. BASIC EARNINGS PER SHARE

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

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

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

16. PROPERTY, PLANT AND EQUIPMENT

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

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

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

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

17. PREPAID LEASE PAYMENTS

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

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

18. INTANGIBLE ASSETS

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

Notes:

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

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

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

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

19. IMPAIRMENT TESTING ON TRADEMARKS WITH INDEFINITE USEFUL LIVES

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

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

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

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

20. INTEREST IN AN ASSOCIATE

	2005	**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 Torch Automobile Group Co., Ltd. (湘火炬汽車集團股份有限公司) which is principally engaged in the manufacture and sale of heavy duty trucks and vehicle parts

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

	2005	2004
	RMB'000	*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	—

21. AVAILABLE-FOR-SALE FINANCIAL ASSETS

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

22. INVESTMENT SECURITIES

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

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

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

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

24. INVENTORIES

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

25. OTHER FINANCIAL ASSETS

Trade and bills receivables

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

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

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

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

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

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

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

Bank balances and cash

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

26. PLEDGE OF ASSETS

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

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

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

27. OTHER FINANCIAL LIABILITIES

Trade and bills payables

	2005	**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.

28. 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 of approximately USD3,000,000 (equivalent to approximately RMB24,241,000) (2004: Nil) are denominated in currencies other the functional currencies of the relevant group entities. These borrowings are variable-rate borrowings which carry interest at 1.2% over London Interbank Offered Rate.

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

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

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

29. WARRANTY PROVISION

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

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

30. SHARE CAPITAL

	Number of shares		Registered,
	Domestic shares	H shares	issued and fully paid
	'000	*'000*	*RMB'000*
At 1st January, 2004	215,000	—	215,000
Conversion of certain state-owned domestic shares to H shares *(Note)*	(11,500)	11,500	—
Issue of H shares upon listing on the Main Board of the Stock Exchange (including those converted from domestic shares)	—	115,000	115,000
At 31st December, 2004 and 31st December, 2005	203,500	126,500	330,000

Note: Pursuant to the approval from the Ministry of Finance of the PRC regarding the sale and conversion of the domestic shares, the total number of H shares issued at HK$10.50 each was 126,500,000 H shares, comprising 115,000,000 new H shares and 11,500,000 H shares converted from 11,500,000 domestic shares.

31. 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*
At 1st January, 2004 and 31st December, 2004	—	—	—
Charge (credit) to income for the year	5,133	(6,983)	(1,850)
At 31st December, 2005	5,133	(6,983)	(1,850)

32. CAPITAL COMMITMENTS

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

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

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

33. OTHER COMMITMENTS

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

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

34. OPERATING LEASE COMMITMENTS

The Group as lessee

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

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

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

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

35. POST BALANCE SHEET EVENT

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

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

36. CONNECTED AND RELATED PARTIES DISCLOSURE

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

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

Notes:

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

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

Compensation of key management personnel

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

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

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

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

(i) *Name of related company*

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

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

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

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

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

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

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

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

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

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

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

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

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

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

37. PARTICULARS OF SUBSIDIARIES

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

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

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

Deloitte.
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35/F One Pacific Place
88 Queensway
Hong Kong

14th June, 2006

The Directors
Weichai Power Co., Ltd.

Dear Sirs,

We set out below our report on the financial information relating to 濰柴動力(濰坊)投資有限公司 (Weichai Power (Weifang) Investment Co. Ltd.) (the "JV Co") for the period from 2nd August, 2005 (date of establishment) to 31st December, 2005 (the "Relevant Period") for inclusion in the circular dated 14th June, 2006 (the "Circular") issued by Weichai Power Co., Ltd. (the "Company") in connection with its acquisitions of further equity interests in the JV Co not already owned by it (the "Acquisitions").

The JV Co was established in the People's Republic of China (the "PRC") on 2nd August, 2005 as a limited liability company. The principal activity of the JV Co is the holding of approximately 28.12% interest in the registered capital of Torch Automobile Group Co., Ltd. (湘火炬汽車集團股份有限公司) ("TAGC") which is principally engaged in the manufacture and sale of heavy duty trucks and vehicle parts. TAGC is listed on the Shenzhen Stock Exchange in the PRC.

The statutory financial statements of the JV Co for the Relevant Period were prepared in accordance with the relevant accounting principles and financial regulations applicable to enterprises registered in the PRC and were audited by 山東正源和信有限責任會計師事務所 (Shandong Zhengyuanhexin Certified Public Accountant's Office, Ltd.), certified public accountants registered in the PRC (the "Underlying Financial Statements").

The financial information of the JV Co for the Relevant Period set out in this report (the "Financial Information") has been prepared from the Underlying Financial Statements, after making such adjustments as we considered necessary for the purpose of preparing our report for inclusion in the Circular.

The directors of the JV Co are responsible for the preparation of the Underlying Financial Statements. The directors of the Company are responsible for the contents of the Circular in which this report is included. It is our responsibility to compile the Financial Information from the Underlying Financial Statements, to form an independent opinion on the Financial Information and to report our opinion to you.

We were engaged to examine the Underlying Financial Statements and carried out such additional procedures as necessary in accordance with the Auditing Guideline "Prospectuses and the reporting accountant" as recommended by the Hong Kong Institute of Certified Public Accountants ("HKICPA"). However, included in the Financial Information is an amount of RMB3,453,062, representing the JV Co's share of TAGC's profit for the Relevant Period, and an amount of RMB1,027,810,640, representing the JV Co's interest in TAGC at 31st December, 2005. However, because we were unable to gain access to the necessary accounting books and records of TAGC for the purpose of this report, we were unable to carry out the procedures we considered necessary on the relevant financial information of TAGC in order to satisfy ourselves that these amounts are not materially misstated in the context of this report.

Because of the significance of the matter set out in the preceding paragraph, we are unable to form an opinion as to whether the Financial Information gives a true and fair view of the state of affairs of the JV Co as at 31st December, 2005 and of its profit and cash flows for the Relevant Period.

I. FINANCIAL INFORMATION

Income Statement
For the period from 2nd August, 2005 (date of establishment) to 31st December, 2005

	Notes	*RMB*
Turnover		—
Bank interest income		415,560
Other interest income		6,985,887
Administrative expenses		(5,414,657)
Share of results of an associate	9	3,453,062
Profit before taxation		5,439,852
Taxation	5	(854,636)
Profit for the period	6	4,585,216

Balance Sheet
At 31st December, 2005

	Notes	*RMB*
Non-current assets		
Interest in an associate	9	1,027,810,640
Deferred tax assets	14	92,787
		1,027,903,427
Current assets		
Loans to shareholders	10	208,900,000
Other receivables	11	3,527,074
Bank balances	11	12,014,609
		224,441,683
Current liabilities		
Other payables	12	1,812,471
Tax payable		947,423
		2,759,894
Net current assets		221,681,789
		1,249,585,216
Capital and reserve		
Registered and paid up capital	13	1,245,000,000
Retained profit		4,585,216
		1,249,585,216

Statement of Changes in Equity
For the period from 2nd August, 2005 (date of establishment) to 31st December, 2005

	Registered and paid up capital *RMB*	**Retained profit** *RMB*	**Total** *RMB*
On establishment	5,000,000	—	5,000,000
Capital injection	1,633,000,000	—	1,633,000,000
Capital reduction	(393,000,000)	—	(393,000,000)
Profit for the period	—	4,585,216	4,585,216
At 31st December, 2005	1,245,000,000	4,585,216	1,249,585,216

Cash Flow Statement
For the period from 2nd August, 2005 (date of establishment) to 31st December, 2005

	RMB
OPERATING ACTIVITIES	
Profit before taxation	5,439,852
Adjustments for:	
Interest income	(7,401,447)
Share of results of an associate	(3,453,062)
Operating cash flows before movements in working capital	(5,414,657)
Increase in other receivables	(1,830)
Increase in other payables	1,636,209
NET CASH USED IN OPERATING ACTIVITIES	(3,780,278)
INVESTING ACTIVITIES	
Investment in an associate	(1,024,357,578)
Loans to shareholders	(601,900,000)
Repayments of loans from shareholders	393,000,000
Interest received	4,052,465
NET CASH USED IN INVESTING ACTIVITIES	(1,229,205,113)
FINANCING ACTIVITIES	
Capital injection	1,638,000,000
Capital reduction	(393,000,000)
NET CASH FROM FINANCING ACTIVITIES	1,245,000,000
NET INCREASE IN CASH AND CASH EQUIVALENTS, AND CASH AND CASH EQUIVALENTS AT END OF THE PERIOD, representing bank balances	12,014,609

NOTES TO THE FINANCIAL INFORMATION

1. SIGNIFICANT ACCOUNTING POLICIES

The Financial Information has been prepared on the historical cost basis and in accordance with Hong Kong Financial Reporting Standards ("HKFRS(s)").

The Financial Information is presented in Renminbi ("RMB"), which is the same as the functional currency of the JV Co.

The JV Co has not early applied the following new Hong Kong Accounting Standards ("HKAS(s)"), amendments and interpretations ("INT") that have been issued but are not yet effective. The directors of the JV Co anticipate that the application of these standards, amendments or interpretations will have no material impact on the Financial Information of the JV Co.

HKAS 1 (Amendment)	Capital disclosures[1]
HKAS 19 (Amendment)	Actuarial gains and losses, group plans and disclosures[2]
HKAS 21 (Amendment)	The effects of changes in foreign exchange rates — net investment in a foreign operation[2]
HKAS 39 (Amendment)	Cash flow hedge accounting of forecast intragroup transactions[2]
HKAS 39 (Amendment)	The fair value option[2]
HKAS 39 & HKFRS 4 (Amendments)	Financial guarantee contracts[2]
HKFRS 6	Exploration for and evaluation of mineral resources[2]
HKFRS 7	Financial instruments: Disclosures[1]
HK(IFRIC) — INT 4	Determining whether an arrangement contains a lease[2]
HK(IFRIC) — INT 5	Rights to interests arising from decommissioning, restoration and environmental rehabilitation funds[2]
HK(IFRIC) — INT 6	Liabilities arising from participating in a specific market, waste electrical and electronic equipment[3]
HK(IFRIC) — INT 7	Applying the restatement approach under HKAS 29 Financial Reporting in Hyperinflationary Economics[4]
HK(IFRIC) — INT 8	Scope of HKFRS 2[5]
HK(IFRIC) — INT 9	Reassessment of embedded derivatives[6]

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

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

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

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

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

6 Effective for annual periods beginning on or after 1st June, 2006.

Investments in associates

The results and assets and liabilities of associates are incorporated in the Financial Information using the equity method of accounting. Under the equity method, investments in associates are carried in the balance sheet at cost as adjusted for post-acquisition changes in the JV Co's share of the profit or loss and of changes in equity of the associate, less any identified impairment loss. When the JV Co'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 JV Co's net investment in the associate), the JV Co 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 JV Co has incurred legal or constructive obligations or made payments on behalf of that associate.

Where the JV Co transacts with its associate, profits and losses are eliminated to the extent of the JV Co's interest in the relevant associate.

Revenue recognition

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.

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 period. Taxable profit differs from profit as reported in the income statement because it excludes items of income or expense that are taxable or deductible in other periods and it further excludes items that are never taxable or deductible. The JV Co'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 Financial Information 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.

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in associates, except where the JV Co 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.

Goodwill

Goodwill arising on an acquisition of an associate represents the excess of the cost of acquisition over the JV Co's interest in the fair value of the identifiable assets, liabilities and contingent liabilities of the relevant associate at the date of acquisition. Such goodwill is carried at cost less any accumulated impairment losses.

Capitalised goodwill arising on an acquisition of an associate (which is accounted for using the equity method) is included in the cost of the investment of the relevant associate and is carried at cost less accumulated impairment losses. For impairment testing purpose, the entire carrying amount of the investment in associate is tested for impairment by comparing the carrying amount with its recoverable amount irrespective of whether there is any indication that it may be impaired.

On subsequent disposal of an associate, the attributable amount of goodwill capitalised is included in the determination of the amount of profit or loss on disposal.

Financial instruments

Financial assets and financial liabilities are recognised on the balance sheet when the JV Co 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 JV Co's financial assets are classified as loans and receivables. 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 policy adopted is 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 loans to shareholders, other receivables and bank balances) are carried at amortised cost using the effective interest method, less any identified impairment losses. An impairment loss is recognised in profit or loss when there is objective evidence that the asset is impaired, and is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the original effective interest rate. Impairment losses are reversed in subsequent periods when an increase in the asset's recoverable amount can be related objectively to an event occurring after the impairment was recognised, subject to a restriction that the carrying amount of the asset at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

Financial liabilities and equity

Financial liabilities and equity instruments issued by the JV Co 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 JV Co after deducting all of its liabilities. The JV Co's financial liabilities are classified as other financial liabilities. The accounting policies adopted in respect of other financial liabilities and equity instruments are set out below.

Other financial liabilities

Other financial liabilities including other payables is subsequently measured at amortised cost, using the effective interest rate method.

Equity instruments

Equity instruments issued by the JV Co are recorded at the proceeds received, net of direct issue cost.

Impairment loss

At each balance sheet date, the JV Co reviews the carrying amounts of its 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.

2. KEY SOURCES OF ESTIMATION UNCERTAINTY

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

Impairment on goodwill

Determining whether goodwill is impaired requires an estimation of the value in use of the investment in associate. The value in use calculation requires the JV Co to estimate the future cash flows expected to be generated by the associate and a suitable discount rate in order to calculate the present value. Where the actual amount of future cash flows is less than expected, a material impairment loss may arise.

3. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The JV Co's major financial instruments include loans to shareholders, bank balances and other payables. 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 JV Co's management manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

Credit risk

The JV Co's maximum exposure to credit risk in the event of the counterparties' failure to perform their obligations as at 31st December, 2005 in relation to each class of recognised financial assets is the carrying amount of those assets as stated in the balance sheet. The JV Co reviews the recoverable amount of each receivable at each balance sheet date to ensure that adequate impairment losses are made for irrecoverable amounts.

The credit risk on liquid funds is limited because the counterparties are banks with high credit-ratings assigned by international credit-rating agencies.

4. BUSINESS AND GEOGRAPHICAL SEGMENTS

The JV Co is principally engaged in investment holding and all of its turnover and operating results are derived from the PRC. Accordingly, no analysis of business and geographical segment is presented.

5. TAXATION

	RMB
PRC Enterprise Income Tax:	
Current period	947,423
Deferred taxation *(note 14)*	(92,787)
	854,636

PRC Enterprise Income Tax is calculated at the statutory income tax rate of 33% of the assessable profit of JV Co.

The taxation for the period can be reconciled to the profit per the income statement as follows:

	RMB
Profit before taxation	5,439,852
Tax at PRC Enterprise Income Tax rate of 33%	1,795,151
Tax effect of share of results of an associate	(1,139,510)
Tax effect of expenses not deductible for tax purpose	198,995
Taxation for the period	854,636

6. PROFIT FOR THE PERIOD

	RMB
Profit for the period has been arrived at after charging:	
Auditors' remuneration	—
Directors' and supervisors' remuneration	—

The auditors' remuneration for the period amounting to RMB120,000 was borne by Weichai Power Co., Ltd. ("Weichai Power"), a shareholder of the JV Co.

7. DIRECTORS', SUPERVISORS' AND EMPLOYEES' EMOLUMENTS

During the period, no emoluments were paid by the JV Co to any of the directors, supervisors and employees of the JV Co as an inducement to join or upon joining or as compensation for loss of office. None of the directors or supervisors waived any emoluments during the period.

8. EARNINGS PER SHARE

Earnings per share has not been presented as such information is not required for a private company.

9. INTEREST IN AN ASSOCIATE

	RMB
Cost of investment in an associate which is listed in the PRC	1,024,357,578
Share of post-acquisition profits	3,453,062
	1,027,810,640

As at 31st December, 2005, the JV Co had interests in the following associate:

Name of entity	Form of business structure	Country of establishment/ Principal place of operation	Paid up registered capital	Proportion of registered capital held by the JV Co %	Principal activities
TAGC	Incorporated	The PRC	RMB936,286,560	28.12 *(note)*	Manufacture and sale of heavy duty trucks and vehicle parts

Note: Being 263,279,520 Domestic shares of the issued share capital of TAGC, which comprises 337,677,120 Domestic shares and 598,609,440 A shares as at 31st December, 2005.

The results of TAGC incorporated into the Financial Information are made up for the period from 11th August, 2005 (the effective date of acquisition) to 31st December, 2005.

Included in the cost of investment in TAGC is goodwill of RMB579,145,044 arising on acquisition by the JV Co of TAGC during the period. TAGC plans to undergo a share reform and compensation may be given to the holders of TAGC's A shares. The compensation, if any, paid by the JV Co (as a holder of TAGC's Domestic shares) will be accounted for as the cost of investment in TAGC by the JV Co and goodwill arising on acquisition may be adjusted accordingly. The JV Co's management represented that the compensation cannot be reliably estimated as at the date of this report.

The recoverable amount of investment in associate has been determined based on value in use calculation. This calculation uses cash flow projections based on financial budgets approved by the JV Co's management covering a 5-year period, at a discount rate of 4.2%. The cash flows beyond the 5-year period are extrapolated using a steady 10% growth rate. Another key assumption for the value in use calculation is the budgeted gross margin, which is determined based on TAGC's past performance and expectations of the JV Co's management for the market development. The JV Co's management believes that any reasonably possible change in any of these assumptions would not cause the aggregate carrying amount of TAGC to exceed the aggregate recoverable amount of TAGC.

The summarised financial information in respect of TAGC is set out below:

	RMB (in million)
Total assets	8,284
Total liabilities	5,053
Net assets	3,231
Minority interests	1,635
Net assets attributable to equity holder of TAGC	1,596
JV Co's share of net assets of TAGC at 31st December, 2005	449
Revenue	1,348
Profit for the period	12
JV Co's share of profit of TAGC for the period	3

During the period, the JV Co's management determines that there is no impairment on the cost of investment in TAGC.

10. LOANS TO SHAREHOLDERS

	RMB
Longkou Golden Electrics Co. Ltd. ("Longkou Golden") *(note i)* *(龍口市金龍電器有限公司)*	87,150,000
Shandong Haihua Group Ltd. ("Shandong Haihua") *(note ii)* *(山東海化集團有限公司)*	74,500,000
Weifang Yaxing Group Ltd. ("Weifang Yaxing") *(note ii)* *(濰坊亞星集團有限公司)*	47,250,000
	208,900,000

Notes:

(i) The amount is unsecured, interest bearing at 5.22% per annum and repayable on 22nd February, 2006. Subsequent to 31st December, 2005, the repayment date was extended to 22nd August, 2006.

(ii) The amounts are loans arranged by a bank and are unsecured, interest bearing at 3.6% per annum and repayable on 28th August, 2006.

The directors of the JV Co consider that the carrying amount of the loans to shareholders approximated its fair value at the balance sheet date.

11. OTHER FINANCIAL ASSETS

Other receivables

	RMB
Interest receivable from Longkou Golden	2,053,708
Interest receivable from Shandong Haihua	924,953
Interest receivable from Weifang Yaxing	546,583
Others	1,830
	3,527,074

The directors of the JV Co consider that the carrying amount of the other receivables approximated its fair value at the balance sheet date.

Bank balances

Bank balances, which carry effective interest rates ranging from 0.75% to 1.68% per annum, comprise cash held by the JV Co and short-term bank deposits with an original maturity of three months or less. The directors of the JV Co consider that the carrying amounts of these assets approximated their fair values at the balance sheet date.

12. OTHER FINANCIAL LIABILITIES

Other payables

The directors of the JV Co consider that the carrying amount of the JV Co's other payables approximated its fair value at the balance sheet date.

13. REGISTERED AND PAID UP CAPITAL

	RMB
On establishment	5,000,000
Add: Capital injection	1,633,000,000
Less: Capital reduction	(393,000,000)
At 31st December, 2005	1,245,000,000

On the date of establishment, RMB5,000,000 was injected as registered capital of the JV Co. On 3rd August, 2005 and 5th August, 2005, additional RMB983,000,000 and RMB650,000,000, respectively, were injected to increase the registered capital of the JV Co.

On 16th August, 2005, registered and paid up capital was reduced by cash refund of RMB393,000,000 to the shareholders in proportion to their respective shareholdings in the JV Co.

14. DEFERRED TAXATION

The followings are the major deferred tax asset recognised and movements thereon during the current period:

	Pre-operating expenses
	RMB
Credit to income for the period and balance at 31st December, 2005	92,787

15. PLEDGE OF ASSETS

At 31st December, 2005, the JV Co had pledged 35,579,520 Domestic shares in TAGC, to a bank to secure the bank loan granted to TAGC.

16. RELATED PARTY DISCLOSURES

(a) Transactions

(i) Interest income from shareholders of the JV Co:

	RMB
Longkou Golden	1,951,024
Shandong Haihua	2,036,813
Weifang Yaxing	2,998,050

(ii) The auditors' remuneration for the period amounting to RMB120,000 was borne by Weichai Power.

(b) Balances

Details of amounts due from related parties are set out in notes 10 and 11.

(c) Pledge of assets

Details of pledge of assets to a bank to secure loan of an associate are set out in note 15.

II. ULTIMATE HOLDING COMPANY

At 31st December, 2005, the JV Co did not have ultimate holding company.

III. DIRECTORS' AND SUPERVISORS' REMUNERATION

Under the arrangement presently in force, no remuneration is payable by the JV Co to its directors and supervisors for the year ending 31st December, 2006.

IV. SUBSEQUENT EVENTS

No significant event incurred subsequent to 31st December, 2005.

V. SUBSEQUENT FINANCIAL STATEMENTS

No audited financial statements have been prepared by the JV Co in respect of any period subsequent to 31st December, 2005.

Yours faithfully,
Deloitte Touche Tohmatsu
Certified Public Accountants
Hong Kong

A. INTRODUCTION

On 12th May, 2006, the Directors announced that the Company entered into the Agreements with the Other Shareholders to acquire the remaining 55% equity interest in the registered capital of JV Co for a consideration of RMB684,750,000.

The unaudited pro forma consolidated balance sheet of the Enlarged Group is prepared based on the audited consolidated balance sheet of the Group as at 31st December, 2005, which has been extracted from the annual report of the Company for the year then ended and the accountants' report on the financial information of JV Co (the "JV Financial Information") for the period from 2nd August, 2005 (date of establishment) to 31st December, 2005 (the "Relevant Period") as set out in appendix II to this circular as if the Acquisitions had been completed on 31st December, 2005.

JV Co's principal asset is the approximately 28.12% interest in the registered capital of TAGC. The JV Financial Information included an amount of approximately RMB3.5 million, representing JV Co's share of TAGC's profit for the Relevant Period, and an amount of approximately RMB1,027.8 million, representing JV Co's interest in TAGC at 31st December, 2005. As the reporting accountants of JV Co were unable to gain access to the necessary accounting books and records of TAGC for the purpose of the accountants' report, they were unable to carry out the procedures they considered necessary on the relevant financial information of TAGC in order to satisfy themselves that these amounts are not materially misstated in the context of the accountants' report on JV Co, they disclaimed their opinion in respect of the JV Financial Information. The accountants' report on JV Co is set out in appendix II to this circular.

The unaudited pro forma consolidated balance sheet is prepared to provide information on the Enlarged Group as a result of the completion of the Acquisitions. As it is prepared for illustrative purpose only, it does not purport to represent what the financial position of the Enlarged Group will be on completion of the Acquisitions.

B. UNAUDITED PRO FORMA CONSOLIDATED BALANCE SHEET OF THE ENLARGED GROUP

	At 31st December, 2005					
	The Group	JV Co	Subtotal	Pro forma Adjustments		Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*Notes*	*RMB'000*
NON-CURRENT ASSETS						
Property, plant and equipment	1,608,840	—	1,608,840			1,608,840
Prepaid lease payments — non-current portion	60,491	—	60,491			60,491
Intangible assets	202,226	—	202,226			202,226
Interest in associates	561,191	1,027,810	1,589,001	684,750	1	1,027,810
				(1,245,000)	1	
				(941)	1	
Available-for-sale financial assets	20,000	—	20,000			20,000
Deposits paid for acquisition of property, plant and equipment	143,960	—	143,960			143,960
Deferred tax assets	1,850	93	1,943			1,943
	2,598,558	1,027,903	3,626,461			3,065,270
CURRENT ASSETS						
Inventories	645,578	—	645,578			645,578
Loans to shareholders	—	208,900	208,900	(208,900)	3	—
Trade and bills receivables	1,162,049	—	1,162,049			1,162,049
Deposits, prepayments and other receivables	122,826	3,527	126,353	208,900	3	335,253
Prepaid lease payments — current portion	1,278	—	1,278			1,278
Pledged bank deposits	371,670	—	371,670			371,670
Bank balances and cash	709,996	12,015	722,011	(684,750)	1	37,261
	3,013,397	224,442	3,237,839			2,553,089
CURRENT LIABILITIES						
Trade and bills payables	1,811,506	—	1,811,506			1,811,506
Other payables and accruals	379,253	1,813	381,066			381,066
Amount due to a related party	63,272	—	63,272			63,272
Tax payable	185,370	947	186,317			186,317
Discounted bills with recourse	235,200	—	235,200			235,200
Unsecured bank borrowings — due within one year	44,241	—	44,241			44,241
Warranty provision	18,559	—	18,559			18,559
	2,737,401	2,760	2,740,161			2,740,161
NET CURRENT ASSETS (LIABILITIES)	275,996	221,682	497,678			(187,072)
TOTAL ASSETS LESS CURRENT LIABILITIES	2,874,554	1,249,585	4,124,139			2,878,198
NON-CURRENT LIABILITIES						
Amount due to a related party	123,593	—	123,593			123,593
Unsecured bank borrowings — due after one year	290,000	—	290,000			290,000
	413,593	—	413,593			413,593
	2,460,961	1,249,585	3,710,546			2,464,605

	At 31st December, 2005					
	The Group	JV Co	Subtotal	Pro forma Adjustments		Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*Notes*	*RMB'000*
CAPITAL AND RESERVES						
Share capital	330,000	1,245,000	1,575,000	(1,245,000)	1	330,000
Reserves	2,068,581	4,585	2,073,166	(2,522)	2	2,072,225
				2,522	2	
				(941)	1	
Equity attributable to equity holders of the parent	2,398,581	1,249,585	3,648,166			2,402,225
Minority interests	62,380	—	62,380			62,380
	2,460,961	1,249,585	3,710,546			2,464,605

Notes:

(1) This adjustment reflects the payment for the Acquisitions, the elimination of 100% interest in JV Co and share of results of JV Co already reflected in the consolidated financial statements of the Group.

(2) This adjustment reflects the discount arising on the Acquisitions. In accordance with Hong Kong Financial Reporting Standard 3 "Business Combination" ("HKFRS 3") issued by the Hong Kong Institute of Certified Public Accountants, the discount on acquisition is the excess of the Group's interest in the fair value of net assets of JV Co acquired over the cost of acquisition. It is assumed that the fair value of net assets of JV Co acquired is the same as the carrying value of net assets of JV Co at 31st December, 2005. The fair value of net assets of JV Co acquired on the Completion date may be different from the fair value of net assets of JV Co used in the preparation of the unaudited pro forma financial information presented above. In addition, the discount on acquisition is recognised as income in accordance with HKFRS 3.

(3) This adjustment reflects the reclassification of loans to shareholders of JV Co to other receivables.

(4) All direct costs in relation to the Acquisitions will be borne by the Group.

C. REPORT ON THE UNAUDITED PRO FORMA CONSOLIDATED BALANCE SHEET OF THE GROUP IMMEDIATELY AFTER COMPLETION OF THE ACQUISITIONS

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Hong Kong

14th June, 2006

The Directors
Weichai Power Co., Ltd.

Dear Sirs,

We report on the unaudited pro forma consolidated balance sheet of Weichai Power Co., Ltd. (the "Company") and its subsidiaries (hereinafter collectively referred to as the "Group"), which has been prepared by the directors of the Company (the "Directors") for illustrative purposes only, to provide information about how the major transaction in relation to the Company's acquisitions of further equity interests in 濰柴動力(濰坊)投資有限公司 (Weichai Power (Weifang) Investment Co. Ltd.) (together with the Group hereinafter referred to as the "Enlarged Group") might have affected the financial information presented, for inclusion in section B of Appendix III to the circular of the Company dated 14th June, 2006 (the "Circular"). The basis of preparation of the unaudited pro forma consolidated balance sheet is set out in Section A and Section B of Appendix III to the Circular.

RESPECTIVE RESPONSIBILITIES OF THE DIRECTORS AND THE REPORTING ACCOUNTANTS

It is the responsibility solely of the Directors to prepare the unaudited pro forma consolidated balance sheet in accordance with paragraph 29 of Chapter 4 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") and with reference to Accounting Guideline 7 "Preparation of Pro Forma Financial Information in Investment Circulars" issued by the Hong Kong Institute of Certified Public Accountants.

It is our responsibility to form an opinion, as required by paragraph 29(7) of Chapter 4 of the Listing Rules, on the unaudited pro forma consolidated balance sheet and to report our opinion to you. We do not accept any responsibility for any reports previously given by us on any financial information used in the compilation of the unaudited pro forma consolidated balance sheet beyond that owed to those to whom those reports were addressed by us at the dates of their issue.

BASIS OF OPINION

We conducted our engagement in accordance with Hong Kong Standard on Investment Circular Reporting Engagements 300 "Accountants' Report on Pro Forma Financial Information in Investment Circulars" issued by the Hong Kong Institute of Certified Public Accountants. Our work consisted primarily of comparing the unadjusted financial information with the source documents, considering the evidence supporting the adjustments and discussing the unaudited pro forma consolidated balance sheet with the Directors. This engagement did not involve independent examination of any of the underlying financial information.

We planned and performed our work so as to obtain the information and explanations we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the unaudited pro forma consolidated balance sheet has been properly compiled by the Directors on the basis stated, that such basis is consistent with the accounting policies of the Group and that the adjustments are appropriate for the purpose of the unaudited pro forma consolidated balance sheet as disclosed pursuant to paragraph 29(1) of Chapter 4 of the Listing Rules.

The JV Co's principal asset is the approximately 28.12% interest in the registered capital of Torch Automobile Group Co., Ltd. ("TAGC"). The financial information of the JV Co (the "JV Financial Information") included an amount of approximately RMB3.5 million, representing the JV Co's share of TAGC's profit for the period from 2nd August, 2005 (date of establishment) to 31st December, 2005, and an amount of approximately RMB1,027.8 million, representing the JV Co's interest in TAGC at 31st December, 2005. As reporting accountants of the JV Co, we were unable to gain access to the necessary accounting books and records of TAGC for the purpose of the accountants' report, we were unable to carry out the procedures we considered necessary on the relevant financial information of TAGC in order to satisfy ourselves that these amounts are not materially misstated in the context of our accountants' report on the JV Co, and consequently we disclaimed our opinion in respect of the JV Financial Information. Details of this are set out in appendix II to this circular.

The unaudited pro forma consolidated balance sheet is for illustrative purpose only, based on judgements and assumptions of the Directors, and, because of its hypothetical nature, does not provide any assurance or indication that any event will take place in the future and may not be indicative of the financial position of the Enlarged Group as at 31st December, 2005 or any future date.

OPINION

In our opinion:

(a) the unaudited pro forma consolidated balance sheet has been properly compiled by the Directors on the basis stated; and

(b) the adjustments are appropriate for the purposes of the unaudited pro forma consolidated balance sheet as disclosed pursuant to paragraph 4.29(1) of the Listing Rules.

As a result of the matters referred to above, we are unable to conclude whether the basis upon which the unaudited pro forma consolidated balance sheet compiled by the Directors is consistent with the accounting policies of the Group.

Yours faithfully,
Deloitte Touche Tohmatsu
Certified Public Accountants
Hong Kong

1. RESPONSIBILITY STATEMENT

This circular includes particulars given in compliance with the Listing Rules for the purpose of giving information with regard to the Company. The Directors collectively and individually accept full responsibility for the accuracy of the information contained in this circular and confirm, having made all reasonable enquiries, that to the best of their knowledge and belief, there are no other facts the omission of which would make any statement herein misleading.

2. DISCLOSURE OF INTERESTS

As at the Latest Practicable Date, the interests and short positions of the Directors and Supervisors in the shares, underlying shares and debentures of the Company notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO, or as recorded in the register required to be kept by the Company under section 352 of the 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 (as if it were applicable also to the Supervisors of the Company) were as follows:

Name of Director	Personal interest	Corporate interest	Total	Capacity	Type of interest
Tan Xuguang	4,300,000 *(Note 1)*	Nil	4,300,000	Beneficial owner	Long
Xu Xinyu	1,000,000 *(Note 1)*	Nil	1,000,000	Beneficial owner	Long
Sun Shaojun	1,000,000 *(Note 1)*	Nil	1,000,000	Beneficial owner	Long
Zhang Quan	1,000,000 *(Note 1)*	Nil	1,000,000	Beneficial owner	Long
Yeung Sai Hong *(Note 3)*	Nil	23,500,000 *(Note 2)*	23,500,000	Interest of corporation controlled by this person	Long
Li San Yim *(Note 4)*	Nil	21,500,000 *(Note 1)*	21,500,000	Interest of corporation controlled by this person	Long
Julius G. Kiss *(Note 5)*	Nil	10,750,000 *(Note 2)*	10,750,000	Interest of corporation controlled by this person	Long
Name of Supervisor					
Wang Yong	350,000 (Note 1)	Nil	350,000	Beneficial owner	Long

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.

3. Yeung Sai Hong, a Director, was directly and indirectly interested in the entire issued share capital of Peterson Holdings Company Limited (培新控股有限公司), which in turn held 23,500,000 Domestic Shares.

4. Li San Yim, a Director, and his wife, Ni Yinying, were interested in 69.16% and 30.84%, respectively in the capital of 福建龍岩工程機械(集團)有限公司 (Fujian Longyan Construction Machinery (Group) Company Limited) ("Fujian Longgong"), which in turn held 21,500,000 Domestic Shares, and Li San Yim was deemed interested in Ni Yinying's entire interest in Fujian Longgong.

5. Julius G. Kiss, a Director, was indirectly interested in the entire capital of IVM Technical Consultants Wien G.m.b.H., which in turn held 10,750,000 Foreign Shares of the Company.

3. SUBSTANTIAL SHAREHOLDERS

As at the Latest Practicable Date, insofar as the Directors were aware, the interests and short positions of any person (other than a Director or Supervisor) in the shares and underlying shares of the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO as recorded in the register required to be kept under section 336 of the SFO were as follows:

Name	Number of Domestic Shares *(Note 7)* and/or Foreign Shares *(Note 8)* (being shares of the same class)	Percentage of share capital comprising only Domestic Shares and Foreign Shares (being shares of the same class)	Number of H Shares *(Note 9)*	Percentage of share capital comprising only H Shares	Capacity	Type of interest held
濰坊柴油機廠 (Weifang Diesel Engine Works)	77,647,900	38.16%	Nil	—	Beneficial owner	Long
中國重型汽車集團有限公司 (China Heavy Duty Truck Group Co. Ltd.) *(Note 1)*	77,647,900	38.16%	Nil	—	Interest of corporation controlled by this entity	Long
Peterson Holdings Company Limited *(Note 2)*	23,500,000	11.55%	Nil	—	Beneficial owner	Long
Advantage Investment Corporation Limited *(Note 2)*	23,500,000	11.55%	Nil	—	Interest of corporation controlled by this entity	Long
福建龍岩工程機械(集團)有限公司 (Fujian Longyan Construction Machinery (Group) Company Limited)	21,500,000	10.57%	Nil	—	Beneficial owner	Long
倪銀英 (Ni Yinying) *(Note 3)*	21,500,000	10.57%	Nil	—	Spouse	Long
濰坊市投資公司 (Weifang Investment Company) *(Note 4)*	19,311,550	9.49%	Nil	—	Beneficial owner	Long

Name	Number of Domestic Shares *(Note 7)* and/or Foreign Shares *(Note 8)* (being shares of the same class)	Percentage of share capital comprising only Domestic Shares and Foreign Shares (being shares of the same class)	Number of H Shares *(Note 9)*	Percentage of share capital comprising only H Shares	Capacity	Type of interest held
深圳市創新投資集團有限公司 (Shenzhen Chuangxin Investment Group Company Limited)	21,500,000	10.57%	Nil	—	Beneficial owner	Long
深圳市投資管理公司 (Shenzhen Investment Management Company) *(Note 5)*	21,500,000	10.57%	Nil	—	Interest of corporation controlled by this entity	Long
IVM Technical Consultants Wien G.m.b.H.	10,750,000	5.28%	Nil	—	Beneficial owner	Long
ADTECH Advanced Technologies AG *(Note 6)*	10,750,000	5.28%	Nil	—	Interest of corporation controlled by this entity	Long
The Capital Group Co., Inc.	Nil	—	12,669,000	10.02%	Investment Manager	Long
Fideity International Ltd.	Nil	—	11,379,000	8.99%	Investment Manager	Long
Commonwealth Bank of Australia	Nil	—	9,136,000	7.22%	Investment Manager	Long
FMR Corp	Nil	—	7,321,000	5.79%	Investment Manager	Long
JPMorgan Chase & Co.	Nil	—	6,764,100	5.35%	Investment Manager	Long

Notes:

1. 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 on 20th March, 2006 approving the segregation of ownership between CHDTGL and Weichai Factory (the "Segregation"). Following the completion of the relevant transfer procedure, Weichai Factory will cease to be a subsidiary of CHDTGL. Since the relevant transfer procedure has not been completed, CHDTGL is still the registered owner of Weichai Factory. Mr. Tan Xuguang (a Director) is the general manager of Weichai Factory.

2. Yeung Sai Hong, a non-executive Director, was beneficially interested in the entire issued share capital of Tingho Nominees Limited, which in turn owned 100% of Advantage Investment Corporation Limited, which was interested in 90% of the entire issued share capital of Peterson Holdings Company Limited.

3. The capital of 福建龍岩工程機械(集團)有限公司 (Fujian Longyan Construction Machinery (Group) Company Limited) ("Fujian Longgong") was held as to approximately 69.16% by Li San Yim (a non-executive Director) and as to approximately 30.84% by 倪銀英 (Ni Yinying). Ni Yinying is Li San Yim's wife, and therefore she is deemed to be interested in Li San Yim's entire interest in Fujian Longgong.

4. 濰坊市投資公司 (Weifang Investment Company) is a state-owned enterprise.

5. 深圳市投資管理公司 (Shenzhen Investment Management Company) was interested in approximately 33.73% of the capital of 深圳市創新投資集團有限公司 (Shenzhen Chuangxin Investment Group Company Limited).

6. ADTECH Advanced Technologies AG was wholly owned by Julius G. Kiss, a non-executive Director, and it was interested in the entire capital of IVM Technical Consultants Wien G.m.b.H.

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 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.

9. H Shares are overseas listed Foreign Shares in the share capital of the Company, with a Renminbi-denominated par value of RMB1.00 each and are subscribed for and traded in Hong Kong Dollars, and they are currently listed on the main board of the Stock Exchange.

10. The English translations of the Chinese names in the above table and notes were prepared by the Company for information purpose only and should not be relied upon.

4. ARRANGEMENTS AND MATTERS CONCERNING DIRECTORS

(a) Each of the executive Directors has entered into a service contract with the Company for a term commencing on 18th December, 2005 and ending on 17th December, 2008. Terms of the service contracts of each executive Directors are in all material respects the same. None of the Directors has entered into any service contract with the Group which is not determinable by the Group within one year without payment of compensation (other than the payment of statutory compensation).

(b) As at the Latest Practicable Date, none of the Directors was interested, directly or indirectly, in any assets which had since 31st December, 2005, being the date to which the latest published audited consolidated financial statements of the Group were made up, been acquired or disposed of by or leased to the Company, or were proposed to be acquired or disposed of by or leased to the Company.

(c) As at the Latest Practicable Date, none of the Directors was materially interested in any contract or arrangement subsisting at the Latest Practicable Date and entered into by the Group since 31st December, 2005, being the date to which the latest published audited consolidated financial statements of the Group were made up, and which was significant in relation to the business of the Group.

(d) Mr. Tan Xuguang, an executive Director, is a deputy general manager of CHDTGL. CHDTGL wholly owns Hangqi which is principally engaged in the manufacture of diesel engines mainly used in heavy-duty trucks, large, medium and small-sized coaches/ passenger cars, power generators and vessels. Please refer to the Prospectus of the Company for details of the business of Hangqi. As at the Latest Practicable Date, save as disclosed herein, none of the Directors or their respective associates had any interest in a business which competes or may compete with the business of the Company. As at the Latest Practicable Date, the Directors were not aware that any of the Directors or their respective associates had interest in any business, apart from the Group's business, which competed or was likely to compete, either directly or indirectly, with the business of the Group which would fall to be disclosed under the Listing Rules.

5. LITIGATION

The Company is not engaged in any litigation or arbitration or claims of material importance and, so far as the Directors are aware, no litigation or arbitration or claims of material importance is pending or threatened against the Company.

6. MATERIAL ADVERSE CHANGE

The Directors are not aware of any material adverse change in the financial or trading position of the Group since 31st December, 2005, the date to which the latest audited consolidated financial statements of the Group were made up.

7. EXPERT

(a) The following is the qualification of the expert which has given opinions or advice which are contained in this circular:

Name	Qualification
Deloitte Touche Tohmatsu	Certified public accountants

(b) As at the Latest Practicable Date, Deloitte Touche Tohmatsu did not have any shareholding in the Company or any right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in the Company, nor did it have any interest, direct or indirect, in any assets which had, since the date to which the latest published audited consolidated financial statements of the Group were made up, been acquired or disposed of by or leased to the Company, or were proposed to be acquired or disposed of by or leased to the Company.

(c) Deloitte Touche Tohmatsu have given and have not withdrawn their written consent to the issue of this circular with the inclusion herein of their report and references to their name in the forms and contexts in which they appear.

8. MATERIAL CONTRACTS

The following contracts (not being contracts entered into in the ordinary course of business) have been entered into by members of the Group within the two years immediately preceding 12th June, 2006, being the bulk-print date of this circular, and are or may be material:

(a) a framework agreement dated 27th September, 2004 entered into between the Company and CHDTGL, under which CHDTGL permited the Company to conduct due diligence in relation to Hangqi, and granted an exclusive right to the Company to acquire the assets of Hangqi. Under such framework agreement, the Company paid CHDTGL a refundable deposit of RMB80,000,000;

(b) a capital investment agreement dated 1st August, 2005 entered into between the Company and an individual for the purpose of establishing JV Co;

(c) a capital increase agreement dated 3rd August, 2005 entered into between the Company and two of the Other Shareholders for the increase of the equity capital of JV Co to RMB988,000,000;

(d) a captial increase agreement dated 5th August, 2005 entered into between the Company and the Other Shareholders for the increase of the equity capital of JV Co to RMB1,638,000,000;

(e) a share purchase agreement entered into on 11th August, 2005 between 華融資產管理公司 (China HuaRong Asset Management Corp.), 新疆德隆集團有限責任公司 (Xinjiang D'LONG (Group) Co., Ltd.), 廣州創寶投資有限公司 (Guangzhou Chuangbo Investment Co. Ltd.), 陝西眾科源新科技術發展有限公司 (Shaanxi Zhong Ke Yuan New Technology Development Co. Ltd.) and JV Co, pursuant to which JV Co acquired 28.12% shareholding interest in TAGC for an aggregate consideration of RMB622,290,000;

(f) a loan transfer agreement entered into on 11th August, 2005 between 華融資產管理公司 (China HuaRong Asset Management Corp.), TAGC and JV Co, pursuant to which TAGC agreed to sell a loan in the aggregate amount of approximately RMB401,092,000 to JV Co for an aggregate consideration of RMB401,092,000; and

(g) the Agreements.

9. PROCEDURES FOR DEMANDING A POLL AT THE AGM

Under the Articles of Association, at any general meeting of Shareholders, a resolution shall be decided on a show of hands unless a poll is demanded by any of the following persons before (or after) any vote by a show of hands:

(a) the chairman of the meeting;

(b) at least 2 Shareholders, who have the right to vote, present in person or by proxy;

(c) one or more Shareholders (including proxies) representing, either calculated separately or in aggregate, one-tenth or more of all shares carrying the right to vote at the meeting.

10. GENERAL

(a) The secretary and qualified accountant of the Company is Mr. Zhang Yuanfu. Mr. Zhang is an associate member of the Hong Kong Institute of Certified Public Accountants.

(b) The registered office of the Company is at 197, Section A, Fu Shou East Street, High Technology Industrial Development Zone, Weifang City, Shandong Province, The People's Republic of China.

(c) The principal place of business of the Company in Hong Kong is at Suite 2501–2, 25th Floor, One International Finance Centre, 1 Harbour View Street Central, Hong Kong.

(d) The H share registrar and transfer office of the Company in Hong Kong is Computershare Hong Kong Investor Services Limited at Shops 1712–1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong.

(e) In the event of inconsistency, the English text of this circular shall prevail over the Chinese text.

11. DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents will be available for inspection during normal business hours on any weekday (except public holidays) at the principal place of business of the Company in Hong Kong at Suite 2501–2, 25th Floor, One International Finance Centre, 1 Harbour View Street Central, Hong Kong, from 14th June, 2006 to 28th June, 2006 (both days inclusive):

(a) the annual reports of the Company for the two financial years ended 31st December, 2004 and 2005;

(b) the accountants' report of JV Co, the text of which is set out in appendix II to this circular, together with the related statement of adjustments;

(c) the report from Deloitte Touche Tohmatsu on the pro forma financial information of the Enlarged Group dated 14th June, 2006, the text of which is set out in appendix III to this circular;

(d) letter from the Board as set out in this circular;

(e) the written consent referred to in paragraph 7 of this appendix;

(f) copies of the material contracts referred to in paragraph 8 of this appendix;

(g) the Articles of Association; and

(h) a copy of each circular issued pursuant to the requirements set out in Chapter 14 and/or Chapter 14A of the Listing Rules since 31st December, 2005, being the date of the latest published audited accounts of the Company were made up.

The following is a reproduction of the notice of the Annual General Meeting dated 12th May, 2006.

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)

NOTICE OF ANNUAL GENERAL MEETING

NOTICE IS HEREBY GIVEN that the annual general meeting (the "**2005 Annual General Meeting**") of Weichai Power Co., Ltd. (the "**Company**") for the year ended 31st December, 2005 will be held at the Company's conference room at 26 Minsheng East Street, Weifang, Shandong Province, the People's Republic of China (the "**PRC**") on 30th June, 2006 at 10:00 a.m. for the purposes of considering, approving (or receiving) and authorising the following matters:

AS ORDINARY RESOLUTIONS:

1. To consider and approve the Report of the Board of Directors of the Company for the year ended 31st December, 2005.

2. To consider and approve the Report of the Supervisory Committee of the Company for the year ended 31st December, 2005.

3. To consider and receive the audited financial statements of the Company and the Auditors' Report for the year ended 31st December, 2005.

4. To consider and approve the re-appointment of 山東正源和信有限責任會計師事務所 (Shandong Zheng Yuan Hexin Accountants Limited) as the PRC auditors of the Company and to authorize Directors to determine their remuneration (and, for the purpose of this resolution, "PRC" means the People's Republic of China, but excluding Hong Kong, Macau and Taiwan).

5. To consider and approve the re-appointment of Messrs. Deloitte Touche Tohmatsu as the non-PRC auditors of the Company and to authorize Directors to determine their remuneration (and, for the purpose of this resolution, "PRC" means the People's Republic of China, but excluding Hong Kong, Macau and Taiwan).

6. To consider and approve the profit distribution of the Company for the year ended 31st December, 2005 (including the payment of final dividend).

7. To consider and approve the resignation 童金根 (Tong Jingen) as a non-executive Director of the Company.

8. To consider and approve the appointment 劉會勝 (Liu Huisheng) as a non-executive Director of the Company with effect as from the conclusion of the 2005 Annual General Meeting up to 17th December, 2008 (both days inclusive) and to authorize Directors to determine his remuneration.

9. To consider and approve the granting of a mandate to the Board of Directors for payment of interim dividend (if any) to the shareholders of the Company for the year ending 31st December, 2006.

10. To consider and approve the agreements all dated 12th May, 2006 (the "**Agreements**") entered into between the Company and Other Shareholders (as defined in the announcement of the Company dated 12th May, 2006) for the acquisition of 55% interest in 濰柴動力(濰坊)投資有限公司 (Weichai Power (Weifang) Investment Co., Ltd.) by the Company from the Other Shareholders for a total consideration of RMB684,750,000; and to authorize the Directors of the Company to do all such actions which are appropriate to implement and complete the Agreements.

AS SPECIAL RESOLUTIONS:

11. To consider and, if thought fit, pass the following resolution relating to the granting of a general mandate to the Board of Directors to issue short term debenture in the PRC as special resolution:

"**THAT:**

(1) The Board of Directors be and is hereby generally and unconditionally granted (subject to the approval from the relevant PRC regulatory authorities), from the conclusion of the 2005 Annual General Meeting up to the conclusion of the next annul general meeting of the Company after the 2005 Annual General Meeting, a general mandate to issue short term debenture (or other non-equity related debt instruments), in one or more tranches, with an amount less than RMB900 million (the "**Debenture Issue**").

(2) The Board of Directors (or any committee thereof), taking into consideration the specific needs of the Company and other market conditions, be and is hereby generally and unconditionally authorized to:

(i) determine the terms and conditions of and other matters relating to the Debenture Issue (including, but not limited to, the determination of the actual aggregate amount, interest rate, rating, guarantee arrangements and use of the proceeds of the Debenture Issue);

(ii) do all such acts which are necessary and incidental to the Debenture Issue (including, but not limited to, the securing of approvals, the determination of selling arrangements and the preparation of relevant application documents); and

(iii) take all such steps which are necessary for the purposes of executing the Debenture Issue (including, but not limited to, the execution of all requisite documentation and the disclosure of relevant information in accordance with application laws), and to the extent that any of the aforementioned acts and steps have already been undertaken by the Board of Directors (or any committee thereof) in connection with the Debenture Issue, such acts and steps be hereby approved, confirmed and ratified."

12. To consider and, if thought fit, pass the following resolution relating to the granting of a general mandate to the Board of Directors to issue, amongst other things, new shares as a special resolution:

"**THAT:**

(1) The Board of Directors be and is hereby authorized to make such amendments to the Articles of Association of the Company as it thinks fit so as to increase the registered capital of the Company and reflect the new capital structure of the Company upon the allotment and issuance of shares of the Company as contemplated in paragraph (2) of this special resolution.

(2) The Board of Directors be and is hereby granted, during the Relevant Period, an unconditional general mandate to separately or concurrently allot, issue and deal with additional domestic shares and/or overseas listed foreign shares of the Company, and to make or grant offers, agreements and options in respect thereof, subject to the following conditions:

(i) such mandate shall not extend beyond the Relevant Period save that the Board of Directors may during the Relevant Period make or grant offers, agreements or options which may require the exercise of such powers after the end of the Relevant Period; and

(ii) the aggregate nominal amount of the domestic shares or overseas listed foreign shares allotted and issued or agreed conditionally or unconditionally to be allotted and issued (whether pursuant to an option or otherwise) by the Board of Directors otherwise than pursuant to a Rights Issue or any option scheme or similar arrangement or any separate approval of the shareholders of the Company, shall not exceed 20% of the aggregate nominal amount of the domestic shares and overseas listed foreign shares, respectively, of the Company in issue as at the date of this special resolution; and the Board of Directors will only exercise its power under such mandate in accordance with the Company Law of the People's Republic of China ("PRC") and the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (as amended from time to time) and only if all necessary approvals from the China Securities Regulatory Commission and/or other relevant PRC government authorities are obtained.

(3) For the purposes of this special resolution:

"Relevant Period" means the period from the passing of this special resolution until the earliest of: (i) the conclusion of the next annual general meeting of the Company following the passing of this special resolution; or (ii) the expiration of the 12-month period following the passing of this special resolution; or (iii) the date on which the authority sets out in this special resolution is revoked or varied by a special resolution of the shareholders of the Company in a general meeting; and

"Rights Issue" means the allotment or issue of shares in the Company or other securities which would or might require shares to be allotted and issued pursuant to an offer made to all the shareholders of the Company (excluding for such purpose any shareholder who is resident in a place where such offer is not permitted under the law or regulation of that place) entitled to such offer, pro rata (apart from fractional entitlements) to their existing holdings of shares.

(4) Contingent on the Board of Directors resolving to issue shares pursuant to paragraph (2) of this special resolution, the Board of Directors be and is hereby authorized to approve, execute and do or procure to be executed and done, all such documents, deeds, and things as it may consider necessary in connection with the issue of such new shares including, without limitation, determining the time and place of issue, making all necessary applications to the relevant authorities, entering into underwriting agreements (or any other agreements), determining the use of proceeds and making all necessary filings and registrations with the relevant PRC, Hong Kong and other relevant authorities, including but not limited to registering or making filing of the increased capital of the Company with the relevant authorities in the PRC and/or Hong Kong as a result of the issuance of shares pursuant to paragraph (2) of this special resolution".

By Order of the Board of Directors
Weichai Power Co., Ltd.
Zhang Yuanfu
Company Secretary

Hong Kong, 12th May, 2006

Notes:

(A) The Company will not process registration of transfers of H Shares of the Company from 30th May, 2006 to 30th June, 2006 (both days inclusive). Holders of H Shares of the Company whose names appear on the register of H Shares of the Company kept at Computershare Hong Kong Investor Services Limited at the end of 29th May, 2006 are entitled to attend and vote at the 2005 Annual General Meeting and for the final dividend following completion of the registration procedures.

To qualify for attendance and voting at the 2005 Annual General Meeting and for the final dividend, documents on transfers of H Shares of the Company, accompanied by the relevant share certificates, must be lodged with the Company's H-Share Registrar and Transfer Office, not later than 4:00 p.m. on 29th May, 2006. The address of the Company's H-Share Registrar and Transfer Office is as follows:

Computershare Hong Kong Investor Services Limited
46/F., Hopewell Centre
183 Queen's Road East
Wanchai
Hong Kong

(B) Holders of H Shares, domestic shares and foreign shares of the Company intending to attend the 2005 Annual General Meeting should complete and return the reply slip for attending the 2005 Annual General Meeting personally, by facsimile or by post to the Secretary to the Board of the Company 20 days before the 2005 Annual General Meeting, (i.e. on or before 10th June, 2006).

The contact details of the Secretary to the Board of the Company are as follows:

Securities Department
197, Section A, Fu Shou East Street
High Technology Industrial Development Zone
Weifang
Shandong Province
The People's Republic of China
Postal Code: 261061
Telephone No.: 86 (536) 229 7068
Facsimile No.: 86 (536) 819 7073

(C) Each holder of H Shares of the Company entitled to attend and vote at the 2005 Annual General Meeting may, by completing the form of proxy of the Company, appoint one or more proxies to attend and vote at the 2005 Annual General Meeting on his behalf. A proxy need not be a shareholder of the Company. With respect to any shareholder who has appointed more than one proxy, the proxy holders may only vote on a poll.

(D) Holders of H Shares of the Company must use the form of proxy of the Company for appointing a proxy and the appointment must be in writing. The form of proxy must be signed by the relevant shareholder or by a person duly authorised by the relevant shareholder in writing (a "power of attorney"). If the forms of proxy is signed by the person authorised by the relevant shareholder as aforesaid, the relevant power of attorney and other relevant documents of authorization (if any) must be notarised. If a corporate shareholder appoints a person other than its legal representative to attend the 2005 Annual General Meeting on its behalf, the relevant form of proxy must be affixed with the company seal/chop of the corporate shareholder or duly signed by its director or any other person duly authorised by that corporate shareholder as required by the Articles of Association of the Company.

(E) To be valid, the form of proxy and the relevant notarized power of attorney (if any) and other relevant documents of authorization (if any) as mentioned in Note (D) above must be delivered to the Company's H-Share Registrar and Transfer Office, Computershare Hong Kong Investor Services Limited (address: 46/F., Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong), not less than 24 hours before the time appointed for the 2005 Annual General Meeting.

(F) Each holder of domestic shares or foreign shares (excluding H Shares) of the Company who is entitled to attend and vote at the 2005 Annual General Meeting may also, by completing the form of proxy of the Company, appoint one or more proxies to attend and vote at the 2005 Annual General Meeting on his behalf. A proxy need not be a shareholder of the Company. Notes (C) and (D) above also apply to the holders of domestic shares and foreign shares (excluding H Shares) of the Company, except that, to be valid, the form of proxy and the relevant power of attorney (if any) and other relevant documents of authorization (if any) must be delivered to the Secretary to the Board of the Company not less than 24 hours before the time appointed for the 2005 Annual General Meeting. The address of the Secretary to the Board of the Company is stated in Note (B) above.

(G) A shareholder or his proxy should produce proof of identity when attending the 2005 Annual General Meeting. If a corporate shareholder's legal representative or any other person authorised by the board of directors or other governing body of such corporate shareholder attends the 2005 Annual General Meeting, such legal representative or other person shall produce his proof of identity, and proof of designation as legal representative and the valid resolution or authorisation document of the board of directors or other governing body of such corporate shareholder (as the case may be) to prove the identity and authorization of that legal representative or other person.

(H) Any proposal to appoint any person to the office of director of the Company at the 2005 Annual General Meeting shall be given in writing and, notice in written by that person of his consent to be elected as director shall be, lodged at the registered office of the Company at 197, Section A, Fu Shou East Street, High Technology Industrial Development Zone, Weifang, Shandong Province, the People's Republic of China. The period for lodgement of such notices shall commence on (and include) the day after the date of this notice of the 2005 Annual General Meeting and end on (and exclude) the date that is seven (7) days before the date of the 2005 Annual General Meeting.

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

The Company proposes to appoint Mr. Liu as a non-executive Director of the Company to hold office as from the conclusion of the 2005 Annual General Meeting up to 17th December, 2008 (both days inclusive). Mr. Liu will not enter into any service contract with the Company in respect of his appointment as a non-executive Director of the Company. Subject to the approval of the shareholders of the Company, the remuneration of Mr. Liu will be determined by the Board. Mr. Liu does not have any relationship with the other Directors, supervisors, senior management or substantial or controlling shareholders of the Company. Mr. Liu did not hold any directorship in any other listed public companies in the past three years. As at the date hereof, Mr. Liu holds 600,000 domestic shares in the Company. Save as aforesaid, Mr. Liu does not have any other interests in the shares of the Company within the meaning of Part XV of the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong).

There is no information which is discloseable nor is/was Mr. Liu involved in any of the matters required to be disclosed pursuant to Rule 13.51(2)(h) to 13.51(2)(v) of the Rules Governing the Listing of Securities on The Stock Exchange Hong Kong Limited. Save for the above, there is no other matter that needs to be brought to the attention of the shareholders of the Company.

(J) The 2005 Annual General Meeting is expected to last for half a day. Shareholders who attend the 2005 Annual General Meeting shall bear their own travelling and accommodation expenses.