1. BASIS OF PREPARATION

The condensed financial statements have been prepared in accordance with the applicable disclosure requirements of Appendix 16 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") and the Hong Kong Accounting Standard 34 "Interim Financial Reporting".

2. PRINCIPAL ACCOUNTING POLICIES

The condensed financial statements have been prepared under the historical cost basis.

The accounting policies used in the condensed financial statements are consistent with those followed in the preparation of the Company's annual financial statements for the year ended 31st December, 2004 except as described below.

In the current period, the Company 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 that are effective for accounting periods beginning on or after 1st January, 2005. The adoption of the new HKFRSs has resulted in changes to the Company's accounting policies in the following areas that have an effect on how the results for the current or prior accounting periods are prepared and presented.

Financial Instruments

In the current period, the Company 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 to recognise, derecognise or measure 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 Company has applied the relevant transitional provisions in HKAS 39 with respect to classification and measurement of financial assets and financial liabilities that are within the scope of HKAS 39.

On or before 31st December, 2004, the Company classified and measured its debt and 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 the profit or loss. Held-to-maturity investments are carried at amortised cost less impairment losses (if any). From 1st January, 2005 onwards, the Company classifies and measures its debt and 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". The classification depends on the purpose for which the assets are acquired. "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 except for equity instruments that do not have a quoted market price in an active market and its fair value cannot be reliably measured. Such equity instruments are carried at cost less impairment. "Loans and receivables" and "held-to-maturity financial assets" are measured at amortised cost using the effective interest method.

On 1st January, 2005, the Company classified and measured its debt and equity securities in accordance with the requirements 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.

Financial assets and financial liabilities other than debt and equity securities

From 1st January, 2005 onwards, the Company classifies and measures 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. As mentioned above, financial assets under HKAS 39 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 liabilities are generally classified as "financial liabilities at fair value through profit or loss" or "financial liabilities other than financial liabilities at fair value through profit or loss (other financial liabilities)". "Other financial liabilities" are carried at amortised cost using the effective interest method. On applying HKAS 39, the Company calculated the implied interest of an interest free amount due to a related party and an adjustment of approximately RMB30,607,000 has been made to reduce the amount due to a related party. The corresponding adjustment has been made to increase equity because it represents a contribution from shareholder (see note (b) for financial impact).

Cost of equity transactions

Under HKAS 32, the Company 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, an adjustment of approximately RMB5,626,000 relating to listing expenses has been reversed from share premium and included in the net profit for the period ended 30th June, 2004 (see note (b) for financial impact).

Owner-occupied leasehold interest in land

In previous periods, owner-occupied leasehold land and buildings were included in property, plant and equipment and measured using the cost model. In the current period, the Company 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 (b) for financial impact). Alternatively, where the allocation between the land and buildings elements cannot be made reliably, the leasehold interests in land continue to be accounted for as property, plant and equipment.

(a) The effects of the adoption of new HKFRSs described above on the results for the current and prior period are as follows:

	Six months ended	
	30.6.2005	30.6.2004
	RMB'000	*RMB'000*
Increase in administrative expenses:		
Listing expenses	—	(5,626)
Increase in finance costs:		
Interest on amount due to a related party	**(6,068)**	—
Decrease in profit for the period	**(6,068)**	(5,626)

(b) The cumulative effects of the application of the new HKFRSs as at 31st December, 2004 and 1st January, 2005 are summarised below:

	As at 31.12.2004 (originally stated) *RMB'000*	**Effect of HKAS 17** *RMB'000*	**Effect of HKAS 32** *RMB'000*	**As at 31.12.2004 (restated)** *RMB'000*	**Effect of HKAS 32 and HKAS 39** *RMB'000*	**As at 1.1.2005 (restated)** *RMB'000*
Balance sheet items						
Property, plant and equipment	974,980	(63,047)	—	911,933	—	911,933
Investment securities	20,000	—	—	20,000	(20,000)	—
Available-for-sale investments	—	—	—	—	20,000	20,000
Prepaid lease payments — non-current portion	—	61,769	—	61,769	—	61,769
Prepaid lease payments — current portion	—	1,278	—	1,278	—	1,278
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
Shareholder's contribution	—	—	—	—	30,607	30,607
Accumulated profits	604,314	—	(5,626)	598,688	—	598,688
Total effects on equity	1,704,730	—	—	1,704,730	30,607	1,735,337

3. SEGMENT INFORMATION

The Company was solely engaged in the business of manufacture and sale of diesel engines and substantially all of the Company's turnover and operating results were derived from the People's Republic of China (the "PRC") and accordingly, no analysis of business and geographical segment is presented.

4. PROFIT FROM OPERATIONS

	Six months ended	
	30.6.2005	30.6.2004
	RMB'000	*RMB'000*
		(restated)
	(unaudited)	*(unaudited)*
Profit from operations has been arrived at after charging:		
Depreciation and amortisation of property, plant and equipment	**44,399**	23,553
Amortisation of intangible assets	**38,889**	33,705
Amortisation of prepaid lease payments	**639**	140
and after crediting:		
Bank interest income	**5,699**	7,021

5. INCOME TAX EXPENSE

	Six months ended	
	30.6.2005	30.6.2004
	RMB'000	*RMB'000*
	(unaudited)	*(unaudited)*
PRC Enterprise Income Tax	**142,935**	137,706
Tax credit	**—**	(29,386)
	142,935	108,320

PRC Enterprise Income Tax is calculated at the statutory income tax rate of 33% (six months ended 30th June, 2004: 33%) of the assessable profit. During the current period, the assessable profit that is derived from the production in the high technology development zone is taxed at a preferential rate of 15% pursuant to the Notice of the Ministry of Finance and the State Administration of Taxation concerning certain preferential policies on enterprise income tax (財政部、國家税務總局《關於企業所得税若干優惠政策的通知》) and the Notice of the State Administration of Taxation concerning the proper implementation of the continuing administrative work after the cancellation and delegation of the examination and approval procedure for enterprise income tax (國家税務總局《關於做好已取消和下放管理的企業所得税審批項目後續管理工作的通知》).

The Company's Chongqing branch is subject to PRC Enterprise Income Tax at a preferential rate of 15% (six months ended 30th June, 2004: 15%).

The Company's Hong Kong branch is subject to Hong Kong Profits Tax at 17.5% (six months ended 30th June, 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 period.

Pursuant to a notice dated 29th February, 2004 issued by Weifang Municipal Tax Bureau, the Company is entitled to a total tax credit of approximately RMB29,386,000 in respect of eligible additions of domestic machinery and equipment for production use.

There was no significant unprovided deferred taxation during the period or at the balance sheet date.

6. DIVIDEND

In June 2005, a dividend of RMB0.15 per share (six months ended 30th June, 2004: RMB0.105) amounting to RMB49,500,000 (six months ended 30th June, 2004: RMB22,575,000) was paid to shareholders as the final dividend for 2004.

The Directors have determined that an interim dividend of RMB0.165 (six months ended 30th June, 2004: RMB0.15) per share should be paid to the shareholders of the Company whose names appear in the Register of Members on 16th September, 2005.

7. BASIC EARNINGS PER SHARE

The calculation of basic earnings per share is based on the net profit for the period of approximately RMB250,223,000 (six months ended 30th June, 2004: RMB242,973,000 as restated) and on the weighted average number of 330,000,000 (six months ended 30th June, 2004: 285,769,231) ordinary shares in issue during the period.

The adjustment to comparative basic earnings per share, arising from adoption of new HKFRSs shown in note 2 above, is as follows:

	RMB
Reconciliation of 2004 basic earnings per share	
Reported figure before adjustment	0.87
Adjustment arising from the adoption of HKAS 32	(0.02)
Restated	0.85

8. ADDITIONS TO PROPERTY, PLANT AND EQUIPMENT

During the period, the Company spent approximately RMB666,223,000 (six months ended 30th June, 2004: RMB303,418,000) on property, plant and equipment.

9. ADDITIONS TO INTANGIBLE ASSETS

During the period ended 30th June, 2004, the Company acquired certain trademarks of approximately RMB119,264,000 from China Heavy Duty Truck Group. China Heavy Duty Truck Group Co. Ltd. ("CHDTGL") is a substantial shareholder of the Company. CHDTGL and its affiliates other than the Company are collectively referred as China Heavy Duty Truck Group.

10. TRADE DEBTORS

The credit terms granted by the Company to its customers are generally similar and are normally in the range from 30 days to 90 days. However, customers with established trading records could be granted longer credit period. An analysis of trade debtors is as follows:

	30.6.2005	31.12.2004
	RMB'000	*RMB'000*
	(unaudited)	*(audited)*
Third party customers	**552,595**	300,481
Related party customers	**97,435**	187,143
	650,030	487,624
An ageing analysis is as follows:		
Within 90 days	**519,365**	466,544
Between 91 to 180 days	**122,002**	5,320
Between 181 to 365 days	**238**	4,146
Over 365 days	**8,425**	11,614
	650,030	487,624

The related party customers represented China Heavy Duty Truck Group, 福建龍岩工程機械(集團)有限公司 ("Fujian Longgong") and its affiliates and 廣西柳工集團有限公司 ("Guangxi Liugong") and its affiliates. Fujian Longgong and Guangxi Liugong are promoters of the Company and held 6.52% and 1.36% interest in the Company at 30th June, 2005, respectively.

11. TRADE CREDITORS

An analysis of trade creditors is as follows:

	30.6.2005	31.12.2004
	RMB'000	*RMB'000*
	(unaudited)	*(audited)*
Third party suppliers	**867,139**	1,212,276
Related party suppliers	**163,236**	42,466
	1,030,375	1,254,742
An ageing analysis is as follows:		
Within 90 days	**974,737**	1,216,911
Between 91 to 180 days	**7,419**	23,677
Between 181 to 365 days	**41,942**	8,081
Over 365 days	**6,277**	6,073
	1,030,375	1,254,742

Related party suppliers represented China Heavy Duty Truck Group.

12. SHARE CAPITAL

	Number of shares Domestic shares	H shares	Registered, 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 30th June, 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 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.

13. PLEDGE OF ASSETS

At 30th June, 2005, bank deposits and bills receivables of approximately RMB242,096,000 (31.12.2004: RMB334,445,000) and RMB55,720,000 (31.12.2004: RMB119,876,000) respectively were pledged to secure bills payable issued by banks for the Company.

14. CAPITAL COMMITMENTS

	30.6.2005	31.12.2004
	RMB'000	*RMB'000*
	(unaudited)	*(audited)*
Capital expenditure in respect of the acquisition of property, plant and equipment contracted for but not provided in the financial statements	**128,733**	423,631
Capital expenditure in respect of the acquisition of property, plant and equipment authorised but not contracted for	**340,180**	340,180

As at 30th June, 2005, included in the deposits paid for acquisition of property, plant and equipment was a refundable deposit of RMB80,000,000 (31st December, 2004: RMB80,000,000) paid to CHDTGL in relation to a framework agreement dated 27th September, 2004 for the Company to acquire certain assets of Hangzhou Motor Engine Factory, a wholly-owned subsidiary of CHDTGL. The final amount of the consideration for the acquisition, if the transaction is contemplated, is yet to be determined.

15. OTHER COMMITMENTS

In conjunction with China Heavy Duty Truck Group, the Company entered into a research and development contract with AVL List GmbH, a third party, with a contract sum of Euro6.6 million (equivalent to approximately RMB68,741,000).

As at 30th June, 2005, the outstanding commitment amounted to approximately Euro1,260,000, equivalent to approximately RMB12,551,000 (31.12.2004: Euro1,445,000, equivalent to approximately RMB15,242,000).

16. OPERATING LEASE COMMITMENTS

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

	30.6.2005 ***RMB'000*** ***(unaudited)***	31.12.2004 *RMB'000* *(audited)*
Within one year	**49,605**	48,620
In the second to fifth year inclusive	**95,551**	118,508
	145,156	167,128

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

17. POST BALANCE SHEET EVENT

濰柴動力(濰坊)投資有限公司 ("濰柴投資") is an equity joint venture company established in the PRC on 2nd August, 2005 with a registered capital of RMB1,638 million, of which the Company holds 45% interest in it. The registered capital of 濰柴投資 was fully paid up on 5th August, 2005.

On 11th August, 2005, 濰柴投資 entered into an agreement with independent vendors for the acquisition of approximately 28.12% interest in 湘火炬汽車集團股份有限公司 (Torch Automobile Group Co., Ltd. ("Torch Automobile"), a company listed on The Shenzhen Stock Exchange in the PRC), at a consideration of approximately RMB622 million. On the same date, 濰柴投資 also enter into another agreement for the purchase of certain loans receivables from Torch Automobile at a consideration of approximately RMB401 million.