

## NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) FOR THE SIX MONTHS ENDED 30TH JUNE, 2006

### 1. BASIS OF PREPARATION

The condensed consolidated 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 and with Hong Kong Accounting Standard 34 “Interim Financial Reporting” issued by the Hong Kong Institute of Certified Public Accountants (the “HKICPA”).

### 2. PRINCIPAL ACCOUNTING POLICIES

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

The accounting policies used in the condensed consolidated financial statements are consistent with those followed in the preparation of the Group’s annual consolidated financial statements for the year ended 31st December, 2005.

In the current period, the Group has applied, for the first time, a number of new standards, amendments and interpretations issued by the HKICPA (hereinafter collectively referred to as “new HKFRS(s)”) that are effective for accounting periods beginning on or after 1st December, 2005 or 1st January, 2006. The adoption of the new HKFRSs has had no material effect on how the results for the current or prior accounting periods are prepared and presented. Accordingly, no prior period adjustment has been required.

The Group has not applied the following new standards, amendments and interpretations that have been issued but are not yet effective. The Directors of the Company anticipate that the application of these standards, amendments and interpretations will have no material impact to the results and financial positions of the Group.

HKAS 1 (Amendment)	Capital Disclosures <sup>1</sup>
HKFRS 7	Financial Instruments: Disclosures <sup>1</sup>
HK(IFRIC) — INT 7	Applying the Restatement Approach under HKAS 29 “Financial Reporting in Hyperinflationary Economies” <sup>2</sup>
HK(IFRIC) — INT 8	Scope of HKFRS 2 “Share-based Payment” <sup>3</sup>
HK(IFRIC) — INT 9	Reassessment of embedded derivatives <sup>4</sup>

<sup>1</sup> Effective for annual periods beginning on or after 1st January, 2007.

<sup>2</sup> Effective for annual periods beginning on or after 1st March, 2006.

<sup>3</sup> Effective for annual periods beginning on or after 1st May, 2006.

<sup>4</sup> Effective for annual periods beginning on or after 1st June, 2006.

## NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) FOR THE SIX MONTHS ENDED 30TH JUNE, 2006

### 3. SEGMENT INFORMATION

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 People's Republic of China (the "PRC") and accordingly, no analysis of business and geographical segment is presented.

### 4. INCOME TAX EXPENSE

	Six months ended	
	30.6.2006 RMB'000 (unaudited)	30.6.2005 RMB'000 (unaudited)
PRC Enterprise Income Tax	72,414	142,935
Deferred tax	(2,063)	—
	<b>70,351</b>	142,935

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》), the Group's PRC Enterprise Income Tax is calculated at the statutory income tax rate of 33% (2005: 33%) of its assessable profit, except that assessable profit derived from the production in the high technology development zone is taxed at a preferential rate of 15% (2005: 15%).

Pursuant to the notice issued by Jiang Jing Municipal Tax Bureau, the Company's Chongqing branch is also subject to PRC Enterprise Income Tax at a preferential rate of 15% (2005: 15%).

The Company's Hong Kong branch is subject to Hong Kong Profits Tax at 17.5% (2005: 17.5%) on its estimated assessable profit. No provision for Hong Kong Profits Tax has been made as the branch had no assessable profit for the year.

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

## NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) FOR THE SIX MONTHS ENDED 30TH JUNE, 2006

### 5. PROFIT FOR THE PERIOD

	Six months ended	
	30.6.2006 <i>RMB'000</i> <i>(unaudited)</i>	30.6.2005 <i>RMB'000</i> <i>(unaudited)</i>
Profit for the period has been arrived at after charging:		
Depreciation of property, plant and equipment	<b>84,255</b>	44,399
Amortisation of intangible assets	<b>31,111</b>	38,889
Amortisation of prepaid lease payments	<b>639</b>	639
and after crediting:		
Bank interest income	<b>6,706</b>	5,699

### 6. DIVIDEND

In June 2006, a dividend of RMB0.165 per share amounting to RMB54,450,000 was approved to be paid to shareholders as the final dividend for 2005.

In June 2005, a dividend of RMB0.15 per share amounting to RMB49,500,000 was paid to shareholders as the final dividend for 2004.

The Directors have determined that an interim dividend of RMB0.20 (six months ended 30th June, 2005: RMB0.165) per share should be paid to the shareholders of the Company whose names appear in the Register of Members on 22nd September, 2006.

### 7. BASIC EARNINGS PER SHARE

The calculation of basic earnings per share is based on the profit for the period attributable to equity holders of the parent of approximately RMB318,742,000 (six months ended 30th June, 2005: RMB250,223,000) and on the number of 330,000,000 (six months ended 30th June, 2005: 330,000,000) ordinary shares in issue during the period.

### 8. ADDITIONS TO PROPERTY, PLANT AND EQUIPMENT

During the period, the Company spent approximately RMB96,155,000 (six months ended 30th June, 2005: RMB666,223,000) on property, plant and equipment.

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**9. INTEREST IN AN ASSOCIATE**

	<b>30.6.2006</b> <b>RMB'000</b> <b>(unaudited)</b>	31.12.2005 <i>RMB'000</i> <i>(audited)</i>
Cost of investment in unlisted shares of an associate listed in the PRC	<b>1,051,058</b>	—
Cost of investment in an unlisted associate	—	560,250
Share of post-acquisition profit	—	941
	<b>1,051,058</b>	561,191

At 31st December, 2005, the Group held 45% in 潍柴動力(濰坊)投資有限公司 (“Weifang Investment”) which is an investment company established in the PRC whose principal asset is a 28.12% interest in 湘火炬汽車集團股份有限公司 (“TAGC”) in the form of domestic shares. On 30th June, 2006, the Group completed the acquisition of the remaining 55% interest in Weifang Investment. Accordingly, Weifang Investment became a wholly-owned subsidiary of the Group and TAGC became a direct associate of the Group.

TAGC is a company established in the PRC with its ‘A’ shares listed on the Shenzhen Stock Exchange. TAGC is principally engaged in the manufacture and sale of heavy trucks and related parts and components.

At 30th June, 2006, included in the cost of investment in associate is goodwill of approximately RMB509,584,000 (31.12.2005: RMB238,918,000), which is attributable to TAGC. As disclosed in Note 17, the goodwill represents the excess of the cost of the business combination over the Group’s interest in the net fair value of the identifiable assets, liabilities and contingent liabilities, which are determined on a provisional basis.

## NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) FOR THE SIX MONTHS ENDED 30TH JUNE, 2006

### 10. TRADE AND BILLS RECEIVABLES

The credit terms granted by the Group to its customers are generally similar and are normally in the range from 30 days to 180 days. However, customers with established trading records could be granted longer credit period. An analysis of trade debtors is as follows:

	<b>30.6.2006</b> <b>RMB'000</b> <b>(unaudited)</b>	31.12.2005 <i>RMB'000</i> <i>(audited)</i>
Third party customers	<b>577,881</b>	142,977
Related party and connected person customers	<b>168,462</b>	217,417
	<b>746,343</b>	360,394
Bills receivable	<b>1,075,054</b>	801,655
	<b>1,821,397</b>	1,162,049

An aged analysis of trade and bills receivables is as follows:

Within 90 days	<b>1,365,224</b>	974,679
Between 91 to 180 days	<b>302,319</b>	180,522
Between 181 to 365 days	<b>147,575</b>	2,916
Over 365 days	<b>6,279</b>	3,932
	<b>1,821,397</b>	1,162,049

At 30th June, 2006, the related party and connected person customers represented Weifang Diesel Engine Works ("Weichai Factory") and its affiliates other than the Group (collectively referred to as "Weichai Factory Group"), 福建龍岩工程機械(集團)有限公司 ("Fujian Longgong") and its affiliates, 廣西柳工集團有限公司 ("Guangxi Liugong") and its affiliates and TAGC and its affiliates. Weichai Factory is a substantial shareholder of the Company. Fujian Longgong and Guangxi Liugong are promoters of the Company and held 6.52% and 1.36% interest in the Company at 30th June, 2006, respectively.

At 31st December, 2005, the related party and connected person customers also included China Heavy Duty Truck Group Co., Ltd. ("CHDTGL") and its affiliates other than the Group. CHDTGL ceased to be the holding company of a substantial shareholder of the Company during the period. CHDTGL and its affiliates other than the Group are collectively referred to as China Heavy Duty Truck Group.

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

The fair value of the trade and bills receivables at the balance sheet dates approximates carrying amount.

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**11. TRADE AND BILLS PAYABLES**

	<b>30.6.2006</b> <i>RMB'000</i> <i>(unaudited)</i>	31.12.2005 <i>RMB'000</i> <i>(audited)</i>
Third party suppliers	<b>1,648,261</b>	1,184,615
Related party and connected person suppliers	<b>25,180</b>	75,411
	<b>1,673,441</b>	1,260,026
Bills payable	<b>581,316</b>	551,480
	<b>2,254,757</b>	1,811,506

An analysis of trade and bills payables is as follows:

Within 90 days	<b>1,811,021</b>	1,312,896
Between 91 to 180 days	<b>333,618</b>	439,327
Between 181 to 365 days	<b>53,723</b>	13,123
Over 365 days	<b>50,395</b>	46,160
	<b>2,254,757</b>	1,811,506

At 30th June, 2006, the related party and connected person suppliers represented Weichai Factory Group.

At 31st December, 2005, the related party and connected person suppliers also included China Heavy Duty Truck Group.

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

The fair value of trade and bills payables at the balance sheet dates approximates carrying amount.

**12. BANK AND OTHER BORROWINGS — DUE AFTER ONE YEAR**

During the period, the Group obtained other borrowings of approximately RMB132,532,000.

## NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) FOR THE SIX MONTHS ENDED 30TH JUNE, 2006

### 13. SHARE CAPITAL

	Number of shares		Registered, issued and fully paid RMB'000
	Domestic shares '000	H shares '000	
At 1st January, 2005, 31st December, 2005 and 30th June, 2006	203,500	126,500	330,000

### 14. PLEDGE OF ASSETS

At 30th June, 2006, the following assets were pledged to secure bills payables issued by banks for the Group:

- (i) bank deposits of approximately RMB316,551,000 (31.12.2005: RMB371,670,000);
- (ii) bills receivables of approximately RMB42,042,000 (31.12.2005: Nil); and
- (iii) 35,579,520 shares in TAGC at carrying amount of approximately RMB142,040,000 (31.12.2005: Nil).

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 the balance sheet dates approximates carrying amount.

### 15. CAPITAL COMMITMENTS

	<b>30.6.2006</b> <b>RMB'000</b> <b>(unaudited)</b>	31.12.2005 RMB'000 <i>(audited)</i>
Capital expenditure in respect of the acquisition of property, plant and equipment contracted for but not provided in the financial statements	<b>340,546</b>	234,912
Capital expenditure in respect of the acquisition of property, plant and equipment authorised but not contracted for	<b>299,982</b>	—

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**16. OPERATING LEASE COMMITMENTS**

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

	<b>30.6.2006</b> <b>RMB'000</b> <b>(unaudited)</b>	31.12.2005 <i>RMB'000</i> <i>(audited)</i>
Within one year	<b>51,171</b>	50,355
In the second to fifth year inclusive	<b>49,028</b>	73,218
	<b>100,199</b>	123,573

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



## NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) FOR THE SIX MONTHS ENDED 30TH JUNE, 2006

### 17. ACQUISITION OF A SUBSIDIARY

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

The net assets acquired in the transaction are as follows:

	<b>Provisional value (Note) RMB'000</b>
Net assets acquired:	
Interest in an associate	541,474
Amount due from a shareholder	213,240
Bank balances and cash	8
Trade and other payables	<u>(1,842)</u>
	<u>752,880</u>
55% of net assets acquired	414,084
Goodwill (included in interest in an associate)	<u>270,666</u>
	<u>684,750</u>
Satisfied by:	
Cash consideration paid	<u>684,750</u>
Net cash outflow arising on acquisition:	
Cash consideration paid	(684,750)
Cash and cash equivalents acquired	<u>8</u>
	<u>(684,742)</u>

*Note:* The initial accounting for the above acquisition has been determined provisionally, awaiting the receipt of professional valuations in relation to certain underlying assets and liabilities of the associate.

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

The acquisition had no impact to the Group's turnover and profit for the period.

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Had the acquisition been completed on 1st January, 2006, the Group's turnover for the period would have been approximately RMB3,493,590,000, and profit for the period would have been approximately RMB340,861,000. This proforma information is for illustration purpose only and is not necessarily indicative of the Group's results of operations that would actually have been achieved had the acquisition been completed on 1st January, 2006, nor is it intended to be a projection of future results.

### 18. POST BALANCE SHEET EVENTS AND CONTINGENT LIABILITIES

- (a) Trading in the H shares of the Company has been suspended since 21st August, 2006 pending the release of an announcement. As at the date of this report, the said announcement has not been finalised.
- (b) On 26th August, 2006, the Company and Weichai Factory received a letter from CHDTGL, the former registered capital holder of Weichai Factory, stating that there existed discrepancies in the account balances between CHDTGL and the Company and Weichai Factory and that the Company and Weichai Factory should be responsible for certain losses that CHDTGL suffered in the past. The directors, after careful examination of the said letter and the circumstances surrounding thereto, are of the opinion that as far as the Company is concerned, such statements are groundless. If pursued, the directors intend to contest such matters vigorously.

The directors believe that taking into account the provisions that have been included in these accounts, any eventual resolution with CHDTGL of the relevant matters will not have a material adverse effect on the Group's financial position.