WEICHAI

濰柴動力股份有限公司

WEICHAI POWER CO., LTD.

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

(Stock Code: 2338)

ANNOUNCEMENT OF RESULTS FOR THE YEAR ENDED 31 DECEMBER 2006

FINANCIAL HIGHLIGHTS

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

The board of directors (the "Board") of Weichai Power Co., Ltd. (the "Company") is pleased to announce the consolidated results of the Company and its subsidiaries (the "Group") for the year ended 31 December, 2006 (the "Period"), together with comparative figures for the year of 2005 as follows:

CONSOLIDATED INCOME STATEMENT
FOR THE YEAR ENDED 31ST DECEMBER, 2006

	NOTES	**2006** *RMB'000*	2005 *RMB'000*
Turnover	3	**6,633,668**	5,250,735
Cost of sales		**(4,742,383)**	(4,096,408)
Gross profit		**1,891,285**	1,154,327
Other income	4	**99,329**	69,963
Distribution costs		**(485,562)**	(403,968)
Administrative expenses		**(414,059)**	(272,052)
Research and development expenses		**(169,201)**	(94,869)
Other expenses		**(1,617)**	(762)
Share of profit of an associate		**32,094**	941
Finance costs	5	**(63,160)**	(42,978)
Profit before taxation	6	**889,109**	410,602
Income tax expense	7	**(181,099)**	(93,919)
Profit for the year		**708,010**	316,683
Attributable to:			
Equity holders of the Company		**702,695**	315,203
Minority interests		**5,315**	1,480
		708,010	316,683
Dividends	8	**120,450**	103,950
Basic earnings per share	9	**RMB2.13**	RMB0.96

CONSOLIDATED BALANCE SHEET
AT 31ST DECEMBER, 2006

	NOTES	**2006** *RMB'000*	2005 *RMB'000*
NON-CURRENT ASSETS			
Property, plant and equipment		**1,942,176**	1,608,840
Prepaid lease payments — non-current portion		**59,213**	60,491
Intangible assets		**140,003**	202,226
Interest in an associate		**1,067,731**	561,191
Available-for-sale financial assets		**20,000**	20,000
Deposits paid for acquisition of property, plant and equipment		**320,565**	143,960
Deferred tax assets		**—**	1,850
		3,549,688	2,598,558
CURRENT ASSETS			
Inventories	*10*	**896,992**	645,578
Trade and bills receivables	*11*	**1,397,276**	1,162,049
Deposits, prepayments and other receivables		**228,494**	122,826
Prepaid lease payments — current portion		**1,278**	1,278
Pledged bank deposits		**459,653**	371,670
Bank balances and cash		**595,386**	709,996
		3,579,079	3,013,397
CURRENT LIABILITIES			
Trade and bills payables	*12*	**2,465,570**	1,811,506
Other payables and accruals		**557,858**	379,253
Amount due to a related party		**66,229**	63,272
Tax payable		**195,641**	185,370
Discounted bills with recourse		**—**	235,200
Unsecured bank borrowings — due within one year		**198,087**	44,241
Warranty provision		**47,165**	18,559
		3,530,550	2,737,401
NET CURRENT ASSETS		**48,529**	275,996
TOTAL ASSETS LESS CURRENT LIABILITIES		**3,598,217**	2,874,554
NON-CURRENT LIABILITIES			
Amount due to a related party		**61,510**	123,593
Unsecured bank and other borrowings — due after one year		**474,183**	290,000
Deferred tax liabilities		**10,267**	—
		545,960	413,593
		3,052,257	2,460,961
CAPITAL AND RESERVES			
Share capital		**330,000**	330,000
Reserves		**2,654,562**	2,068,581
Equity attributable to equity holders of the Company		**2,984,562**	2,398,581
Minority interests		**67,695**	62,380
		3,052,257	2,460,961

Notes:

1. GENERAL

The Company was established as a joint stock company with limited liability in the People's Republic of China (the "PRC"). The Company's H shares are listed on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") as from 11th March, 2004.

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

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

2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRS")

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

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

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

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

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

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

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

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

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

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

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

3. BUSINESS AND GEOGRAPHICAL SEGMENTS

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

4. OTHER INCOME

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

5. FINANCE COSTS

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

6. PROFIT BEFORE TAXATION

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

7. INCOME TAX EXPENSE

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

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

(i) Notice of Ministry of Finance and the State Administration of Taxation concerning certain preferential policies on enterprise income tax (財政部、國家稅務總局《關於企業所得稅若干優惠政策的通知》) and

(ii) Notice of the State Administration of Taxation concerning proper implementation of the continuing administrative work after the cancellation delegation of the examination and approval procedure for enterprise income tax (國家稅務總局《關於做好已取消和下放管理的企業所得稅審批項目後續管理工作的通知》).

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

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

Pursuant to the notices issued by Weifang Municipal Tax Bureau and Chongqing Municipal Tax Bureau, the Group was entitled to a total income tax credit of approximately RMB10,407,000 for the year ended 31st December, 2005 in respect of eligible additions of domestic machinery and equipment for production use. No tax credit has been granted for the year.

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

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

8. DIVIDENDS

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

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

9. BASIC EARNINGS PER SHARE

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

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

10. INVENTORIES

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

11. TRADE AND BILLS RECEIVABLES

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

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

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

12. TRADE AND BILLS PAYABLES

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

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

CHAIRMAN'S STATEMENT

Dear Shareholders,

1. Review of Operations

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

In line with the continuous improvement of the nationwide road facilities and, in particular, the increase in the miles of expressways, a concrete foundation for the growth of the heavy-duty truck industry was laid down. The continual improvement of the relevant national laws and regulations, the intensified control on truck overloading and the large-scale implementation of the 《收費公路試行計重收費指導意見》(Guiding Opinion on the Trial of Charge-by-weight on Toll Roads) directly facilitated the rapid development of the heavy-duty truck industry in China towards the direction of high-tonnage, high-power and high-efficiency. According to the statistics of 中國汽車工業協會 (China Association of Automobile Manufacturers), the sales of heavy-duty trucks in the automobile industry in China reached over 300,000 units in 2006, representing a year-on-year growth of approximately 30%.

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

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

With its technology innovation capability, the Company continued to lead the advancement of power technologies in China. Following the production of the first proprietary Euro III emission standard compliant high-power, high-speed "Landking" (「藍擎」) engines in China and the exclusive application of the new 2006 model of WD615 engines with WEVB technology and reduction in fuel and noise in China, the Company successfully launched the first proprietary 12-litre and 480-

horsepower WD12 engines in October, which have already been introduced in the market and orders have already been received. Specifically designed for commercial heavy-duty trucks in China, this new product significantly reduced the reliance on the import of high-emission and high-speed engines in China.

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

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

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

2. Dividend

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

3. Acquisition and Consolidation

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

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

4. Outlook and Prospects

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

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

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

5. **Appreciation**

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

MANAGEMENT DISCUSSION AND ANALYSIS

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

BUSINESS REVIEW

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

Sales of diesel engines — heavy-duty truck

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

Sales of diesel engines — construction machinery

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

Sales of engine parts

Apart from the production and sale of diesel engines for trucks and construction machinery, the Group is also engaged in the production and sale of engine parts. The production and sale of engine parts not only contributed to the revenue of the Group, but also ensured the generation of revenue from the provision of after-sales service on the parts. During the Period, the Group recorded an approximately 11.0% increase in sales of engine parts from approximately RMB683.0 million in 2005 to approximately RMB758.0 million in 2006. The surge was mainly attributable to the increase in accumulated sales volume of diesel engines in the previous years. The sales of engine parts represented approximately 11.4% (2005: 13.0%) of the Group's total turnover in the Period.

FINANCIAL REVIEW

Turnover

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

Gross profit and gross profit margin

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

Other income

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

Distribution costs

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

Administrative expenses

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

Share of results of an associate

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

Finance costs

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

Operating profit

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

Income taxes

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

Dividend

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

Net profit margin

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

Liquidity and financial resources

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

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

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

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

Capital structure

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

During the Period, the Group financed its liquidity requirements through a combination of cash flow as generated from normal operation bills, payables and bank loans. It is the intention of the Group to maintain an appropriate mix of equity and debt to ensure an efficient capital structure from time to time. As at 31 December, 2006, the Group had debts of approximately RMB672.3 million (2005: RMB334.2 million) in aggregate and the gearing ratio was approximately 9.4% (2005: 6.0%) (total debt/total asset).

Business and geographical segments

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

Pledge of assets

At 31 December, 2006, bank deposits and bills receivables of approximately RMB494.0 million (2005: RMB371.7 million) were pledged to banks to secure bills payables issued and bills receivables discounted by the Group.

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

Foreign exchange risk exposure

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

Contingent liabilities

The Group had no material contingent liabilities as at 31 December, 2006.

Capital commitments

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

Capital expenditure, merger and acquisitions

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

Human resources practice

As at 31 December, 2006, the Company had a total of over 8,000 employees. As the Company believes that a loyal and motivated work force is key to its success, the Company has long been investing in employees' development efforts by organizing various training courses to broaden their horizon. Employees are remunerated based on their performance, experience and the prevailing industry practices, with compensation policies and packages being reviewed on a yearly basis. Bonus and commission are also awarded to employees based on internal performance evaluation.

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

MERGER AND ACQUISITION

Acquisition of Weifang Investment

On 12 May, 2006, the Company entered into conditional sale and purchase agreements to acquire 55% equity interest in Weifang Investment, as a result of which the Company's interest therein was increased from 45% to 100%, for a consideration of RMB684,750,000. Weifang Investment is an investment holding company whose principal asset is approximately 28.12% equity interest in TAGC, a company listed on the Shenzhen Stock Exchange. TAGC and its subsidiaries were are in the manufacture and sale of heavy trucks and related parts and components.

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

Merger with TAGC

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

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

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

DIRECTORS' AND SUPERVISORS' INTERESTS IN SHARES AND UNDERLYING SHARES

As at 31 December, 2006, the interests of the Directors, Supervisors and their associates in the shares and underlying shares of the Company and its associated corporations, as recorded in the register maintained by the Company pursuant to Section 352 of the Securities and Futures Ordinance ("SFO"), or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Companies ("Model Code"), were as follows:

Name of Director	Capacity	Number of domestic shares or foreign shares held	Percentage of the issued share capital of the Company
Tan Xuguang	Beneficial owner	4,300,000 *(Note 1)*	1.3%
Xu Xinyu	Beneficial owner	1,000,000 *(Note 1)*	0.3%
Sun Shaojun	Beneficial owner	1,000,000 *(Note 1)*	0.3%
Zhang Quan	Beneficial owner	1,000,000 *(Note 1)*	0.3%
Liu Huisheng	Beneficial owner	600,000 *(Note 1)*	0.2%
Yeung Sai Hong *(Note 3)*	Held by controlled corporation	23,500,000 *(Note 2)*	7.1%
Li San Yim *(Note 4)*	Held by spouse and controlled corporation	21,500,000 *(Note 1)*	6.5%
Julius G. Kiss *(Note 5)*	Held by controlled corporation	10,750,000 *(Note 2)*	3.3%
Name of Supervisor			
Wang Yong	Beneficial owner	350,000 *(Note 1)*	0.1%

Notes:

1. These are domestic shares of the Company. Domestic shares are ordinary shares issued by the Company, with a Renminbi-denominated par value of RMB1.00 each, which are subscribed for and paid up in Renminbi or credited as fully paid up.

2. These are foreign shares of the Company. Foreign shares are ordinary shares issued by the Company, with a Renminbi-denominated par value of RMB1.00 each, which are subscribed for and paid up in a currency other than Renminbi. As at 31 December, 2006, these foreign shares were included in the domestic shares of the Company.

3. Yeung Sai Hong, a Non-Executive Director, was directly and indirectly interested in 90% of the issued share capital of Peterson Holdings Company Limited ("Peterson"), which in turn held 23,500,000 foreign shares of the Company.

4. Li San Yim, a Non-Executive Director, and his spouse, Ni Yinying, were interested in 69.16% and 30.84%, respectively, in the registered capital of Fujian Longgong which in turn held 21,500,000 domestic shares of the Company, and therefore Li San Yim was deemed to be interested in these shares of the Company.

5. Julius G. Kiss, a Non-Executive Director, was indirectly interested in the entire issued share capital of IVM Technical Consultants Wien Gesellschaft m.b.H. ("IVM"), which in turn held 10,750,000 foreign shares of the Company.

Save as disclosed above, none of the Directors, Supervisors, nor their associates had any interests or short positions in any shares or underlying shares of the Company or any of its associated corporations as at 31 December, 2006.

SUBSTANTIAL SHAREHOLDERS

The register of substantial shareholders maintained by the Company pursuant to Section 336 of the SFO shows that as at 31 December, 2006, the following shareholders had notified the Company of their relevant interests in the issued share capital of the Company.

Name	Capacity	Number of domestic shares *(Note 7)* or foreign shares *(Note 8)* held	Percentage of share capital comprising only domestic shares and foreign shares	Number of H shares held *(Note 9)*	Percentage of share capital comprising only H shares	Percentage of total issued share capital
濰坊柴油機廠 (Weifang Diesel Engine Works) ("Weichai Factory")	Beneficial owner	77,647,900	38.16%	Nil	—	23.53%
山東省國有資產監督管理委員會 State-owned Assets Supervision and Administration of Shandong Province) ("Shandong SASAC") *(Note 1)*	Beneficial owner	77,647,900	38.16%	Nil	—	23.53%
Peterson *(Note 2)*	Beneficial owner	23,500,000	11.55%	Nil	—	7.12%
Yeung Sai Hong *(Note 2)*	Held by controlled corporation	23,500,000	11.55%	Nil	—	7.12%
Tingho Nominees Limited *(Note 2)*	Held by controlled corporation	23,500,000	11.55%	Nil	—	7.12%
Advantage Investment Corporation Limited *(Note 2)*	Held by controlled corporation	23,500,000	11.55%	Nil	—	7.12%
Fujian Longgong	Beneficial owner	21,500,000	10.57%	Nil	—	6.52%
Li San Yim *(Note 3)*	Held by controlled corporation and spouse	21,500,000	10.57%	Nil	—	6.52%
Ni Yinying *(Note 3)*	Held by controlled corporation and spouse	21,500,000	10.57%	Nil	—	6.52%
濰坊市投資公司 ("Weifang Investment Company") *(Note 4)*	Beneficial owner	19,311,550	9.49%	Nil	—	5.85%
深圳市創新投資集團有限公司 ("Shenzhen Chuangxin Investment Group Company Limited") *(Note 5)*	Beneficial owner	21,500,000	10.57%	Nil	—	6.52%
深圳市投資管理公司 ("Shenzhen Investment Management Company") *(Note 5)*	Held by controlled corporation	21,500,000	10.57%	Nil	—	6.52%
IVM *(Note 6)*	Beneficial owner	10,750,000	5.28%	Nil	—	3.26%
ADTECH Advanced Technologies AG ("ADTECH") *(Note 6)*	Held by controlled corporation	10,750,000	5.28%	Nil	—	3.26%

Name	Capacity	Number of domestic shares *(Note 7)* or foreign shares *(Note 8)* held	Percentage of share capital comprising only domestic shares and foreign shares	Number of H shares held *(Note 9)*	Percentage of share capital comprising only H shares	Percentage of total issued share capital
Julius G. Kiss *(Note 6)*	Held by controlled corporation	10,750,000	5.28%	Nil	—	3.26%
Fidelity International Limited	Investment manager	Nil	—	12,363,000	9.77%	3.75%
JP Morgan Chase & Co.	Investment manager	Nil	—	11,288,000	8.92%	3.42%
The Capital Group Companies Inc.	Investment manager	Nil	—	10,719,900	8.47%	3.25%
Hansberger Global Investors, Inc.	Investment manager	Nil	—	8,851,000	7.00%	2.68%
Altantis Investment Management Ltd.	Investment manager	Nil	—	6,500,000	5.14%	1.97%
Mirae Asset Global Investment Management Limited	Investment manager	Nil	—	6,335,000	5.01%	1.92%

Notes:

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

2. Yeung Sai Hong, a Non-Executive Director, was beneficially interested in the entire issued share capital of Tingho Nominees Limited, which in turn held 100% of Advantage Investment Corporation Limited, which was interested in 90% of the issued share capital of Peterson.

3. The registered capital of Fujian Longgong was held as to 69.16% by Li San Yim, a Non-Executive Director, and as to 30.84% by Ni Yinying, spouse of Li San Yim, and therefore Ni Yinying was deemed to be interested in these shares of the Company.

4. Weifang Investment Company was a State-owned enterprise.

5. Shenzhen Investment Management Company was interested in approximately 33.73% of the registered capital of Shenzhen Chuangxin Investment Group Company Limited.

6. ADTECH was wholly owned by Julius G. Kiss, a Non-Executive Director, and ADTECH was interested in the entire issued share capital of IVM.

7. Domestic shares are ordinary shares issued by the Company, with a Renminbi-denominated par value of RMB1.00 each, which are subscribed for and paid up in Renminbi or other currencies or credited as fully paid up.

8. Foreign shares are ordinary shares issued by the Company, with a Renminbi-denominated par value of RMB1.00 each, which are subscribed for and paid up in a currency other than Renminbi. As at 31 December, 2006, these foreign shares were included in the domestic shares of the Company.

9. H shares are overseas listed shares in the shares capital of the Company, with a Renminbi-denominated par value of RMB1.00 each and are subscribed for and traded in Hong Kong dollars, and they are currently listed on the Main Board of the Stock Exchange.

Save as disclosed above, the Company has not been notified of any other relevant interests or short positions in the issued share capital of the Company as 31 December, 2006.

ARRANGEMENT TO PURCHASE SHARES OR DEBENTURES

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

PRE-EMPTIVE RIGHTS

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

PURCHASE, SALE OR REDEMPTION OF SECURITIES OF THE COMPANY

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

AUDIT COMMITTEE

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

Throughout the Period, the Audit Committee discharged its responsibilities, reviewed and discussed the financial results and internal control system of the Company. In accordance with the requirements of Appendix 16 to the Listing Rules, the Audit Committee has reviewed the consolidated financial statements for the Period.

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

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

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

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

COMPLIANCE WITH THE MODEL CODE

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

APPROVAL OF THE CONSOLIDATED FINANCIAL STATEMENTS

The consolidated financial statements for the Period were approved by the Board on 17 April, 2007.

PUBLICATION OF RESULTS ANNOUNCEMENT AND ANNUAL REPORT

The 2006 annual financial information set out above does not constitute the Company's statutory financial statements for the financial year ended 31 December 2006. Instead, it has been derived from the audited financial statements for the financial year ended 31 December 2006, which will be included in the 2006 annual report.

The 2006 annual results announcement and the 2006 annual report, together containing the relevant information required by paragraphs 45 of Appendix 16 to the Listing Rules, will be published on the website of the Stock Exchange at www.hkex.com.hk and website of the Company at www.weichai.com and the 2006 annual report will be delivered to all shareholders by post in due course.

On behalf of the Board
Tan Xuguang
Chairman and CEO

Hong Kong, 17 April, 2007

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

Four executive directors, namely Mr. Tan Xuguang (Chairman), Mr. Xu Xinyu, Mr. Sun Shaojun, Mr. Zhang Quan, eight non-executive directors, namely Mr. Yeung Sai Hong, Mr. Chen Xuejian, Mr. Yao Yu, Mr. Li San Yim, Mr. Liu Huisheng, Ms. Zhang Fusheng, Mr. Julius G. Kiss, Ms. Han Xiaoqun and three independent non-executive directors, namely Mr. Koo Fook Sun, Louis, Mr. Zhang Xiaoyu and Mr. Fang Zhongchang.

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