濰柴动力
WEICHAI POWER

Stock code: 2338

Annual Report 2007

濰柴動力股份有限公司
WEICHAI POWER CO., LTD.

Contents

Corporate Information

Directors

Executive Directors

Tan Xuguang *(Chairman and CEO)*
Xu Xinyu *(Executive President)*
Sun Shaojun *(Executive President)*
Zhang Quan *(Executive President)*

Non-executive Directors

Yeung Sai Hong
Chen Xuejian
Yao Yu
Li San Yim
Liu Huisheng
Zhang Fusheng
Julius G. Kiss
Han Xiaoqun
Liu Zheng
Li Shihao
Gu Linsheng

Independent Non-executive Directors

Koo Fook Sun, Louis
Zhang Xiaoyu
Fang Zhongchang

Supervisors

Sun Chengping
Wang Yong (resigned on 22nd October, 2007)
Ding Yingdong (appointed on 22nd October, 2007)
Jiang Jianfang

Company Secretary, Chief Financial Officer and Qualified Accountant

Zhang Yuanfu *(FCCA, HKCPA)*

Secretary to the Board

Dai Lixin

Legal Representative

Liu Jiahong
197, Section A, Fu Shou East Street
High Technology Industrial Development Zone
Weifang, Shandong Province
The People's Republic of China
Postal Code: 261061
Tel: (86) (536)-229 7068
Fax: (86) (536)-819 7073
Website: http://www.weichai.com

Authorised Representatives

Xu Xinyu
Zhang Yuanfu

Registered Address and Headquarters of the Company

197, Section A
Fu Shou East Street
High Technology Industrial Development Zone
Weifang
Shandong Province
The People's Republic of China
Postal Code: 261061
Tel: (86) (536)-229 7068
Fax: (86) (536)-819 7073
website: http://www.weichai.com

Corporate Information

Place of Business in Hong Kong

Room 1909, 19th Floor
Gloucester Tower
15 Queen's Road Central
Hong Kong

Auditors

Non-PRC auditors:

Messrs. Deloitte Touche Tohmatsu
Certified Public Accountants

PRC auditors:

山東正源和信有限責任會計師事務所
(Shandong Zheng Yuan Hexin Accountants Limited)

Legal Advisors

As to Hong Kong law:

Richards Butler
in association with Reed Smith LLP

As to PRC law:

通商律師事務所 (Commerce & Finance Law Office)

Audit Committee

Koo Fook Sun, Louis *(Chairman)*
Zhang Xiaoyu
Fang Zhongchang

Remuneration Committee

Koo Fook Sun, Louis *(Chairman)*
Zhang Xiaoyu
Fang Zhongchang
Zhang Fusheng
Yao Yu

Nomination Committee

Fang Zhongchang *(Chairman)*
Koo Fook Sun, Louis
Zhang Xiaoyu
Xu Xinyu
Zhang Quan

Principal Bankers

Industrial and Commercial Bank of China
China Construction Bank Corporation
Bank of China
HSBC

Hong Kong H-share Registrar and Transfer Office

Computershare Hong Kong Investor Services Limited
Hopewell Centre
46th Floor
183 Queen's Road East
Wanchai
Hong Kong

Share Information

Number of issued shares	520,653,552 shares (394,153,552 A shares, and 126,500,000 H shares)
Board lot (H 股) (A 股)	1,000 H-shares 100 A-shares

Abbreviation of the Company's share and Stock Codes

A Shares: 濰柴動力 (Weichai Power) 000338

H Shares: 濰柴動力 (Weichai Power) 2338

Stock Exchange Listings

A Shares: Shenzhen Stock Exchange

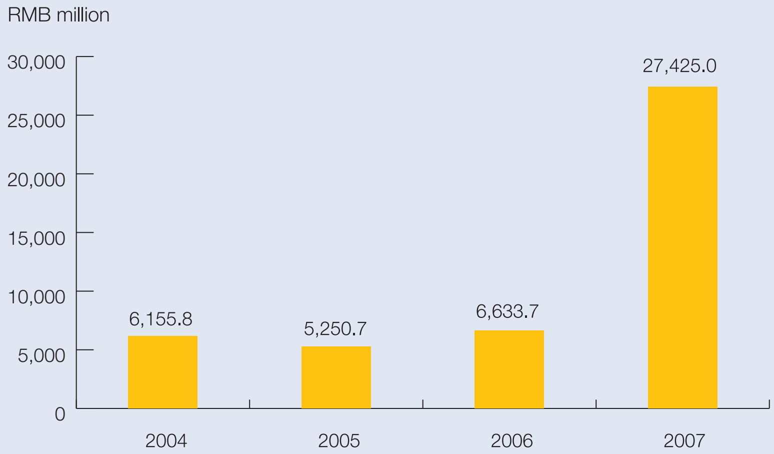
H Shares: The Stock Exchange of Hong Kong Limited
(the "Hong Kong Stock Exchange")

Investors and Media Relations

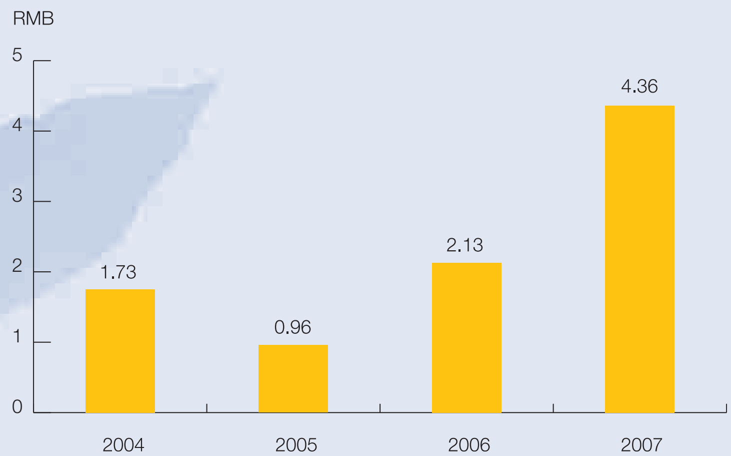
The Company:	**Securities Department** Tel: (86) 536-229 7068 Fax: (86) 536-819 7073 Website: www.weichai.com
Public Relations Consultant:	**Hill & Knowlton Asia Ltd** Tel: (852) 2894 6321 Fax: (852) 2576 1990 Website: www.hillandknowlton.com

Financial Highlights

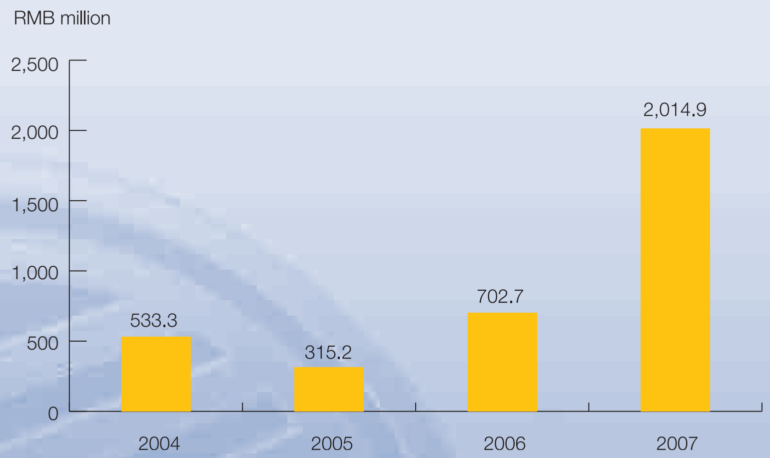
Turnover



Basic Earning Per Share



Net Profit Attributable to Shareholders



Chairman's Statement

Dear Shareholders:

On behalf of the Board, I would like to present the audited annual results of the Company for the year ended 31st December, 2007.

1. Review of Operations

In 2007, China's economy continued to grow in a rapid pace, recording a GDP growth of 11.4% over last year while its fixed asset investment achieved a year-on-year increase of 24.8%. With this favorable macro-economic environment provides the heavy-duty truck, construction machinery and coach industries with huge growth potential.

In line with the continuous improvement of the nationwide road network and, in particular, the increase in the length and coverage of expressways, the road cargo volume and cargo turnover experienced significant growth which propelled the rapid development of the logistics sector. Furthermore, further steps by the Government to regulate the heavy-duty sector which included, the increasing crack down on truck overloading and the implementation of the charge-by-weight policy, and the cost effectiveness the heavy-duty truck for transportation, have directly enhanced the sector development toward a product structure of high-tonnage and high-efficiency. All these have laid a solid foundation for the growth of the heavy-duty truck industry. In 2007, the heavy-duty truck market in China experienced record growth. Sales of heavy-duty trucks reached approximately 487,481 units, representing a year-on-year growth of approximately 60%.

Chairman's Statement

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), 包頭北方奔馳重型汽車有限責任公司 (Baotou North-Benz Heavy-Duty Truck Co., Ltd.), 重慶紅岩汽車有限責任公司 (Chongqing Hongyan Heavy Duty Motor Company Limited), 安徽華菱重型汽車有限公司 (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. all recorded strong growth as well as significant increases in market shares over 2006, hence driving the growth of the Company's product sales. The Company's aggregate sales of heavy-duty truck engines reached approximately 151,370 units in 2007, representing a year-on-year increase of approximately 88.1%. According to the statistics of 中國汽車工業協會 (China Association of Automobile Manufacturers), the Company's market share in the 14 tonnes (and above) gross weight heavy-duty truck market increased to 32.4% from 26.4% in 2006. Shaanxi Heavy-duty Motor Company Limited, a subsidiary of the Company, reported an aggregate sales of 60,000 units of heavy-duty trucks, representing an increase of 96.5% over last year. 陝西法士特齒輪有限責任公司 (Shaanxi Fast Gear Co. Ltd.), a subsidiary of the Company, reported an aggregate sales of 430,180 units of gear boxes, representing an increase of 86.1% over last year.

Although the Government is cautious toward the pace of fixed asset investment, increasing urbanization, the Western China Development strategy, the invigoration of industrial base in the Northeast and development of new villages have driven the growth of China's infrastructural investments in areas such as hydraulic power, nuclear power, oil fields, railways, roads and ports. These in turn have brought the rapid growth of the construction machinery sector. A total of approximately 380,000 units of construction machines were sold in China in 2007, in which sales of wheel loader with a load capacity of 5 tonnes (and above) recorded a growth of 33%. At the same time, the production of construction machinery was further concentrated in a few players. According to the statistics of 中國工程機械協會 (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.), 徐州工程機械集團有限公司 (Xuzhou Construction Machinery Group Inc.), 山東山工機械有限公司 (Shandong SEM Machinery Co., Ltd.) all recorded substantial growth over 2007. The Company's sales of engines for construction machinery were approximately 85,070 units in 2007, representing a year-on-year growth of 43.7%. 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 approximately 83% in the market of wheel loaders with a load capacity of 5 tonnes (and above), representing a growth of approximately 3% over 2006.

In 2007, with our technology innovation, the Company continued to lead the power-transmission development in China. Our proprietary Euro III emission standard compliant high-power, high-speed "Landking" (藍擎) engines were introduced in the market. The research and development of Euro IV engines and its trial with an automobile had completed. In 2007, over 16,500 units of 12-litre high-speed high-power WD12 engines, the only mature product of the same kind in China, were sold. The Weichai Power Industrial Park, which leads in terms of technological standards and environmental protection, has commenced its official production. The Company's output of casts will be increased by 100,000 tonnes.

The Company places strong emphasis on innovative management and adopts international best practices including comprehensive budget management, excellent performance management, Six Sigma management and 5S Management. All these have enhanced the Company's overall management efficiency. In 2007, the Company received the 「全國質量大獎」(national quality award), a top award in quality management in China and a recognition of the Company's high standard of management meeting international standards.

The Company sold approximately 244,890 units of different models of diesel engines in 2007, representing an increase of 67.9% over 2006. Revenue increased by approximately 313.4% over 2006 to approximately RMB27,425.0 million. The net profit attributable to shareholders for the year ended 31st December, 2007 prepared according to the general accepted account principals in China is RMB2,019.4 million, while the same prepared according to Hong Kong Financial Reporting Standard is RMB2,014.9 million. The net profit attributable to shareholders prepared according to Hong Kong Financial Reporting Standard increased by 186.7% over last year to approximately RMB2,014.9 million while basic earnings per share increased by approximately 104.7% over 2006 to approximately RMB4.36.

2. Dividend

Putting shareholders' interests and return as its top priority, the Company has been maintaining a relatively stable dividend policy. The net profit attributable to shareholders for the year ended 31st December, 2007 prepared according to the generally accepted accounting principals in China is RMB2,019.4 million, while the same prepared according to Hong Kong Financial Reporting Standard is RMB2,014.9 million. Under the provisions of the Articles of the Company, the Board proposed to declare a final dividend of RMB0.44 per share for the fiscal year ended 31st December, 2007. The proposed declaration of final dividend will be put forward to the forthcoming annual general meeting to be held for approval. The Company is committed to delivering a long-term, sustainable and stable dividend policy with a view to create best returns for the shareholders.

3. Acquisition and Consolidation

The Company proposed an innovative share segregation reform scheme for TAGC, which was effected through the issue of A shares by Weichai Power, an H-share listing company, to privatize TAGC by means of merger by absorption. As a result of the Merger, TAGC was delisted and its shares were cancelled, and TAGC also ceased to exist and its businesses, assets and liabilities have been merged into the Company. The scheme not only gained recognition and full support from regulatory bodies including the CSRC, but also received very favorable comments from international investment banks, who considered this 'an unprecedented case of merger between companies listed in Hong Kong and Mainland China'. This scheme is recognized by the industry as a landmark example of the domestic and overseas capital markets. On 30th April, 2007, the Company's A shares were listed on the Shenzhen Stock Exchange.

Chairman's Statement

4. Outlook and Prospects

Looking ahead, in 2008, China's economic environment will continue to flourish and the domestic market will drive the robust growth of the economy. This upswing cycle will continue and China's economy is expected to experience further strong growth. Nonetheless, factors such as fluctuating prices of raw markets in both domestic and international markets and the long-term structural contradictions, the economic growth will slightly slow down in 2008 amid the austerity measures by the government to tackle inflation. However, we expect the macro-economic environment in China will remain favourable in 2008.

Industries related to the Company are expected to enjoy healthy growth. In the heavy-duty truck market, the implementation of the National Phase III Emission Standard will have impact to a certain extent on overall sales, resulting in advance ordering from customers. However, the development of the logistics industry, the charge-by-weight policy, fixed asset investment, the increase in export and rising demand for high-power products are favorable factors driving the continuous growth of the heavy-duty truck market. The construction machinery market will also maintain its robust development as a result of growing fixed asset investment in China.

We anticipate that there will be fierce competition in China's engine market in the coming years. We have consolidated our leading position in the high-power engine market and the directors have full confidence in the prospect of the Company. The Company will strengthen and reinforce its edge in the high-power engine market, and capitalize on the synergies generated following the merger by absorption of TAGC.

The Company will spare no effort in the marketing of National Phase III high-power high speed engines. We will utilize our unique resources and technical edge to meet the requirements in the areas of environmental protection, energy conservation and the high-efficiency requirement of heavy-duty trucks. We shall continue to lead and foster the rapid development of the high-power high-speed diesel engines industry in China.

Under the principle of "unifying strategy, independent operation, resources sharing", we will accelerate the segmental development of commercial vehicle, power engines and automobile components. We shall further integrate the Company's resources, fully utilize synergies and improve our capability to resist risk, building the Company as one of the conglomerates in China's automobile industry.

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.

Tan Xuguang
Chairman and Chief Executive Officer

Hong Kong, 29th April, 2008

Management Discussion and Analysis of Results of Operations

The Directors are pleased to provide a management discussion and analysis of the results of operations of the Group for the year ended 31st December, 2007, as follow:

I. Industry Analysis

The Group is one of the largest manufacturers of high-power, high-speed diesel engines in the PRC. After the merger with TAGC, the Group's scope of business expanded from the research, production and sales of engines and their parts and components, to include heavy-duty vehicles, gear boxes and other parts and components of vehicles. After the merger, the Group has become the strongest player in the market. It is equipped with the most comprehensive supply chain. The Group now has the largest business in three segments: engine, truck and truck parts. This "golden procurement chain" gives the Group a larger bargaining power in the industry.

1. Heavy-duty Vehicle Industry

During the year, the sales of the heavy-duty truck in the PRC remained robust. According to the statistics of 中國汽車工業協會 (China Association of Automobile Manufacturers), the domestic sales of heavy-duty trucks amounted to 487,481 units, representing a year-on-year growth of approximately 60%. This is mainly attributed to:

First, during the year, the country's macro economy continued to have a strong growth momentum. According to the National Bureau of Statistics of China, GDP recorded a year-on-year increase of 11.4% while fixed asset investment recorded a year-on-year increase of 24.8%. The heavy-duty vehicle industry benefited from the favourable macro-economic environment.

Second, being the second year of the PRC's "11th Five Year Plan", 2007 recorded the highest amount of capital investment in projects. Various construction-specific vehicles and the transportation vehicle market continued its steady growth.

Third, during the year, thanks to the stricter implementation of the crackdown on overloaded vehicles by the government and the fuller execution of the "toll by weight" policy, the high-power, high-speed and heavy-duty vehicle industry has become the market focus which led to a strong demand for heavy-duty trucks. All these laid a solid foundation for the heavy-duty vehicle industry.

Fourth, the State prioritized its support towards the development of rural areas, environmental protection, development of the Western region, and the growth of the industries based in the Northeast. This, coupled with the full opening of the domestic financial sector and the rapid growth of export, generated a pulling effect on the demand side of the heavy-duty vehicle market during the year.

2. Construction Machinery — The Wheel Loader Industry

During the year, according to the statistics of 中國工程機械工業協會 (China Construction Machinery Association), approximately 159,360 units of wheel loaders were sold in the PRC, which recorded a year-on-year growth of approximately 32.9%. Among the wheel loaders sold, approximately 96,450 units of wheel loaders with a load capacity of 5 tonnes (and above) were sold during the year, which recorded a growth of approximately 35.2%. The wheel loader industry continued to grow at a healthy and fast pace. This is mainly attributed to:

Management Discussion and Analysis of Results of Operations

The country's macro economy remained in strong growth momentum. During the "11th Five Year Plan" period, fixed asset investment has remained the driver of the State's economic growth. 2007 was the second year of the 11th Five Year Plan, the growth of fixed asset investment remained closely related to the demand of the construction machinery. During the year, the constant high level of investment gave the construction machinery industry a good opportunity for development.

The construction machinery industry has entered a medium to long-term rapid growth period. The PRC economy is entering the developing stage of heavy industrialization. According to the experience of some developed countries, heavy industrialization results in long-term prosperity in the construction machinery industry. While the PRC's huge infrastructure construction is still under development, the investment in the urbanization of rural areas, construction of new villages, railways, road infrastructure and public infrastructure have fostered a continuous growth of domestic demand, macro adjustment and control in a mild manner. Soaring export growth has offset the cyclical fluctuation, and the construction machinery industry has maintained its rapid growth.

II. Merger with Torch Automobile Group Co. Ltd ("TAGC")

TAGC was one of China's leading automobile manufacturers and is principally engaged in the manufacture and sale of heavy-duty trucks, heavy-duty transmissions, spark plugs, axles, chassis, air conditioner compressors, etc. Its major subsidiaries are as follows:

(i) Shaanxi Zhongqi

A 51% subsidiary which is principally engaged in the manufacture and sale of heavy-duty vehicles and related parts. It is one of the five largest heavy-duty truck manufacturers in the PRC.

(ii) Shangxi Fast

A 51% subsidiary which is principally engaged in the manufacture, sale, design and development of heavy-duty truck transmission and other related parts. It is the largest manufacturer of gear boxes for heavy-duty trucks in the PRC.

TAGC was accounted for as an associate using the equity method in the Company's consolidated financial statements for the year ended 31st December, 2006. However, upon further discussion with its advisors, the directors have recently conducted detailed analyses of the nature and extent of the Company's control over the financial and operating policies of TAGC since 29th December, 2006. Based on these analyses, the directors have concluded that the Company had de facto control over TAGC with effect from the 29th December, 2006 and that TAGC should have been accounted for as a subsidiary of the Company from that date onwards.

TAGC became a wholly owned subsidiary of the Company in April 2007 and then it ceased to exist. The subsidiaries of TAGC became subsidiaries of the Company directly.

As a subsidiary of the Group since 29th December, 2006, TAGC contributed significantly to the Group's turnover and profit for the year ended 31st December, 2007.

III. The Group's Business

An analysis of the Group's business segments is set out in note 8 to the consolidated financial statements. The following are the highlights of the specific products lines that of importance to the Group.

1. Sales of Diesel Engines

For use in Heavy-duty Trucks

The Group is the largest supplier of diesel engines to major manufacturers of heavy-duty trucks with a load capacity of 15 tonnes (and above) in the PRC. The key customers included: 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), 包頭北方奔馳重型汽車有限責任公司 (Baotou North-Benz Heavy-Duty Truck Co., Ltd.), 重慶紅岩汽車有限責任公司 (Chongqing Hongyan Heavy Duty Motor Company Limited), 安徽華菱重型汽車有限公司 (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. Due to the reasons mentioned above, these customers expanded their market share rapidly in the PRC during the year. During the year, the Group sold approximately 244,890 units of diesel engines in total, compared to approximately 145,890 units in 2006, representing an increase of approximately 67.9%. Of the diesel engines sold during the year, approximately 151,370 units (2006: 80,480 units) were truck engines, representing an increase of approximately 88.1% compared to 2006.

For use in Construction Machinery

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 tonnes (and above) in the PRC. The key customers of the Group are: 廣西柳工機械股份有限公司 (Guangxi Liugong Machinery Co., Ltd.), 中國龍工控股有限公司 (China Infrastructure Machinery Holdings Limited), 山東臨工工程機械有限公司 (Shandong Lingong Construction Machinery Co., Ltd.), 徐州工程機械集團有限公司 (Xuzhou Construction Machinery Group Inc.), 山東山工機械有限公司 (Shandong SEM Machinery Co., Ltd.), etc. During the year, the Group sold approximately 244,890 units of diesel engines, compared to approximately 145,890 units in 2006, representing an increase of approximately 67.9%. Of the diesel engines sold during the year, approximately 85,070 units (2006: 59,210 units) were construction machinery engines, representing an increase of approximately 43.7% compared to that in 2006. According to the statistics of 中國工程機械信息網 (China Construction Machinery Network), the Group had a market share of approximately 83% in the market of wheel loaders with a load capacity of 5 tonnes (and above) in 2007, representing a growth of approximately 3% over 2006.

2. Sale of Heavy-duty Trucks

During the year, the Company's business further extended to include the production and sale of heavy-duty trucks (the "Truck Business") and the Group sold approximately 60,000 units of heavy-duty trucks. Prior to intra-group elimination, the Truck Business contributed revenues RMB12,367.0 million to the Group in 2007.

3. Sale of Heavy-duty Gear Box

During the year, the Company has also extended its business to include the production and sale of heavy-duty gear boxes (the "Gear Boxes Business") and the Group sold approximately 430,180 units of heavy-duty gear boxes. Prior to intra-group elimination, the Gear Boxes Business contributed revenues approximately RMB5,904.0 million to the Group in 2007.

4. Sale of Engine and Heavy-duty Truck Parts

Apart from the production and sale of diesel engines for trucks and construction machinery, heavy-duty trucks and heavy-duty gear boxes, the Group also extended its business to include the production and sales of engine parts and other truck parts such as: spark plugs, axles, chassis, air-conditioner compressors etc. During the year, the Group recorded an approximately 31% increase in sales of engine parts and truck parts to approximately RMB1,272.0 million. The surge was mainly attributable to the increase in accumulated sales volume of diesel engines in the previous years and the Synergy generated from the merger with TAGC.

IV. Financial Review

1. Restatement of 2006 Accounts

TAGC was accounted for as an associate using the equity method in the Company's consolidated financial statements for the year ended 31st December, 2006. However, upon further discussion with its advisors, the directors have recently conducted detailed analyses of the nature and extent of the Company's control over the financial and operating policies of TAGC since the Shareholders' Approval Date. Based on these analyses, the directors have concluded that the Company had de facto control over TAGC with effect from the Shareholders' Approval Date and that TAGC should have been accounted for as a subsidiary of the Company from that date onwards. Accordingly, the Company has re-stated its consolidated financial statements for the year ended 31st December, 2006 and in summary, as follows:

Financial position as of 31st December, 2006

	As previously reported RMB'000	Adjustment for TAGC as a subsidiary RMB'000	As re-stated RMB'000
Current assets	3,579,079	6,520,560	10,099,639
Interest in associate	1,067,731	(906,395)	161,336
Other non-current assets	2,481,957	4,112,581	6,594,538
Total assets	7,128,767	9,726,746	16,855,513
Current liabilities	(3,530,550)	(5,588,627)	(9,119,177)
Non-current liabilities	(545,960)	(831,012)	(1,376,972)
Total liabilities	(4,076,510)	(6,419,639)	(10,496,149)
	3,052,257	3,307,107	6,359,364
Total equity attributable to equity shareholders of the Company	(2,984,562)	—	(2,984,562)
Minority interests	(67,695)	(3,307,107)	(3,374,802)
	(3,052,257)	(3,307,107)	(6,359,364)

The effect of accounting for TAGC as a subsidiary from the Shareholders Approval Date onwards would have had negligible impact to the Group's income consolidated statement and cash flows statement for the year ended 31st December, 2006. Accordingly, re-statement of these financial statements is not considered necessary.

2. The Group's Results of Operations

a. Turnover

The Group's turnover increased from approximately RMB6,633.7 million in 2006 to approximately RMB27,425.0 million in 2007, an increase of approximately 313.4%. The increase in turnover was mainly attributable to the rising demand in the heavy-duty trucks and construction machineries industries for diesel engines, and the absorption of the Acquired TAGC Business. During the year, the Group sold approximately 244,890 units of diesel engines in total, compared to approximately 145,890 units in 2006, representing an increase of approximately 67.9%, while the unit average selling price of its diesel engines remained relatively stable.

The TAGC Business contributed revenues of approximately RMB18,980 million to the Group, prior to intra-group elimination for the year, representing approximately 69.2% of the total turnover of the Group.

b. Gross Profit and Gross Profit Margin

During the year, the Group's gross profit increased by approximately 250.7% from approximately RMB1,891.3 million in 2006 to approximately RMB6,632.5 million in 2007, as a result of the increase in the sales volume of diesel engines from approximately 145,890 units in 2006 to approximately 244,890 units in 2007. Gross profit margin decreased from approximately 28.5% in 2006 to approximately 24.2% in 2007, which was mainly due to the relatively lower gross profit margin of the TAGC Business compared to the business of the Company. Excluding this impact, the Group's gross profit would increase by approximately 79.1% from approximately RMB1,891.3 million in 2006 to approximately RMB3,386.4 million in 2007, while the Group's gross profit margin would slightly increase from approximately 28.5% in 2006 to approximately 30.7% in 2007.

c. Other Income

Other income increased by approximately 144.8% to approximately RMB243.1 million in 2007 from approximately RMB99.3 million in 2006. The increase was mainly due to increases in government subsidies on VAT refund, gain on sale of scraps and 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 Truck Group Co., Ltd.).

d. Distribution Costs

Distribution costs increased from approximately RMB485.6 million in 2006 to approximately RMB1,537.0 million in 2007. As a percentage of turnover, distribution costs decreased from approximately 7.3% in 2006 to approximately 5.6% in 2007, which was mainly due to the significant increase in the Company's scale of operations as the result of the absorption of the TAGC Business.

e. **Administrative Expenses**

Administrative expenses of the Group increased by approximately 227.7% from approximately RMB414.1 million in 2006 to approximately RMB1,356.8 million in 2007. The increase in administrative expenses was mainly due to the significant increase in the Company's scale of operations and the absorption of the Acquired TAGC Business. As a percentage of turnover, the administrative expenses decreased from approximately 6.2% in 2006 to approximately 4.9% in 2007, which was mainly due to the significant increase in the Company's scale of operations and as the result of the absorption of the Acquired TAGC Business.

f. **Operating Profit before Finance Costs**

As a result of greater scale of operations of the Company by the absorption of the TAGC Business in 2007, the Group's operating profit increased by approximately 270.3% to approximately RMB3,526.3 million in 2007 from approximately RMB952.3 million in 2006. The Group's operating margin decreased from approximately 14.4% in 2006 to approximately 12.9% in 2007 which was mainly due to the relatively lower gross profit margin of the TAGC Business compared to the Company. Excluding this impact, the operating profit before finance cost of the Group would increase from approximately RMB952.3 million in 2006 to approximately RMB1,954.9 million in 2007, and the Company's operating margin would increase from approximately 14.4% in 2006 to approximately 17.7% in 2007.

During the year, the TAGC Business contributed operating profit before finance cost of approximately RMB1,603.7 million to the Group, prior to intra-group elimination for the year, representing approximately 45.5% of the total operating profit before finance cost of the Group.

g. **Finance Costs**

Finance costs increased by approximately 300.5% to approximately RMB253.1 million in 2007 from approximately RMB63.2 million in 2006. This increase was mainly due to an increase in borrowings as the result of absorption of the TAGC Business.

h. **Income Taxes**

The Group's income tax expenses increased by approximately 164.8% to approximately RMB479.6 million in 2007 from approximately RMB181.1 million in 2006, which was mainly attributable to the substantial increase in assessable profit of the Group. In 2007, the Group's average effective tax rate decreased substantially from approximately 20.4% in 2006 to approximately 14.7% in 2007. This decrease was mainly due to the fact that a larger portion of the Group's business is subject to a lower profit tax rate as its production and sales were derived from the State's high technology development zone.

i. **Net Profit and Net Profit Margin**

The Group's net profit for the year increased substantially from approximately RMB708.0 million in 2006 to approximately RMB2,793.6 million in 2007, whilst the net profit margin remained stable at around 10% slightly.

j. **Dividend**

Putting shareholders' interests and return as its top priority, the Company has been maintaining a relatively stable dividend policy. The Company will consider all relevant factors, including making reference to the general practices of dividend payment of domestic A share listing companies, and review and establish the dividend policy as an A+H dual listed company. Therefore, the Board has proposed the payment of a final dividend of RMB0.44 per share for the year ended 31st December, 2007.

k. **Liquidity and Cash Flow**

During the year, the Group generated RMB2,954.0 million in operating cash flows, most of which were applied in expanding the Group's operations by acquisition of property, plant and equipment; and in reducing its borrowings. At 31st December, 2007, the Group had a net debt of RMB894.5 million (2006: RMB1,621.5 million), represent a net debt to equity ratio of 9.5% (2006: 25.5%).

3. Financial Position

a. **Assets and Liabilities**

At 31st December, 2007, the Group had total assets of RMB22,255.6 million assets, of which RMB13,924.9 million were current. On the same date, the Group's total liabilities amounted to RMB12,857.5 million, of which RMB12,631.1 million were current. The current ratio was approximately 1.1 which was at a similar level as that of 31st December, 2006.

b. **Capital Structure**

At 31st December, 2007, the Group had total equity of RMB9,398.2 million, of which RMB6,383.5 million was attributable to equity owner of the Company, the balance being minority interests. The Group currently does not rely heavily on borrowings which at 31st December, 2007 amounted to RMB2,601.9 million which included debenture of RMB900.0 million and bank borrowings of RMB1,701.9 million. As a policy, the Group manages its capital to ensure that entities in the Group will be able to continue as a going concern while maximizing the return to shareholders through the optimization of the debts and equity balance. The Group's overall strategy remains unchanged from prior years.

c. **Pledge of Assets**

At 31st December, 2007, bank deposits and bills receivables of approximately RMB870.1 million (as at 31st December, 2006: RMB849.7 million) were pledged to banks to secure bills payables issued and bills receivables 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 the balance sheet dates approximates the carrying amount.

Certain other assets were also pledged by the Group to secure the Group's borrowings. Details are set out in note 39 to the consolidated financial statements.

d. **Contingent Liabilities**

The Group had no material contingent liabilities as at 31st December, 2007.

e. **Capital Commitments**

As at 31st December, 2007, the Group had approximately RMB844.6 million capital commitments contracted (as at 31st December, 2006: RMB57.2 million), principally for the capital expenditure in respect of acquisition of property, plant and equipment.

4. Financial Risks and Exposure

A detailed analysis of the Group's exposure to various risks including fluctuation in currency exchange rates, interest rates and fair values of financial assets are set out in note 7 to the consolidated financial statements.

Directors, Supervisors and Senior Management

(1) Directors

Mr. Tan Xuguang, Chinese, aged 46, is Executive Director, Chairman, Chief Executive Officer and Party committee secretary of the Company, Chairman of Weichai Group Holdings Limited and Chairman of Shandong Juli Co., Ltd.. Mr. Tan joined Weichai Factory in 1977 and had held various positions including the chairman and general manager of Shandong Weichai Imp. & Exp. Corp., director of the import and export department of Weichai Factory, assistant to general manager, deputy general manager and general manager of Weichai Factory, chairman of Torch Automobile Group Co., Ltd.. Mr. Tan is a senior economist and holds a master's degree in engineering. He has extensive experience in diesel engine production management, import and export, marketing, capital operation management and corporate development and strategic management. Mr. Tan was appointed as a Representative of the Tenth National People's Congress of the PRC and guest professor of Tongji University and was honoured "National Labor Model", "首屆全國機械行業優秀企業家" (distinguished entrepreneur of the engine sector in PRC), "CCTV 2005 China Economic Annual Figure", "機械工業企業經營管理大師" (business and management master of engine industrial corporation) and "the most influential executives of 2007". His term of appointment will expire on 17th December, 2008.

Mr. Xu Xinyu, Chinese, aged 44, is Executive Director and Executive President of the Company. Mr. Xu joined Weichai Factory in 1986 and had held the positions of deputy general manager of Shandong Weichai Imp. & Exp. Corp., director of corporate affairs office, director of human resources department, assistant to general manager, deputy general manager and executive deputy general manager of Weichai Factory, and director of Torch Automobile Group Co., Ltd.. Mr. Xu is a senior economist and holds a bachelor's degree in science and a MBA degree. He has extensive experience in corporate restructure merger and acquisition, human resources management and corporate transform management. His term of appointment will expire on 17th December, 2008.

Mr. Sun Shaojun, Chinese, aged 42, is Executive Director Executive President of the Company. Mr. Sun joined Weichai Factory in 1988 and had held the positions of assistant supervisor and supervisor of the engineering department, and the chief engineer of Weichai Factory, and director of Torch Automobile Group Co., Ltd.. Mr. Sun is a senior engineer and holds a master degree in engineering. Mr. Sun has extensive experience in technology management and diesel engine research and development. He was appointed as "山東省人民政府泰山學者特聘專家" (Taishan Mountain scholar specialist appointed by Shandong People's Government). His term of appointment will expire on 17th December, 2008.

Mr. Zhang Quan, Chinese, aged 44, is Executive Director and Executive President of the Company. Mr. Zhang joined Weichai Factory in 1986 and had held the positions of directors of the quality control department, the production department and the marketing department, assistant to general manager and deputy general manager of Weichai Factory. Mr. Zhang is a senior economist and holds a master's degree. Mr. Zhang has extensive experience in diesel engine quality control, production management, marketing and customer management. His term of appointment will expire on 17th December, 2008.

Ms. Zhang Fusheng, Chinese, aged 50, is a Non-executive Director of the Company. Ms. Zhang joined Weichai Factory in 1975. She was deputy director of audit department, director of finance department, deputy chief accountant, assistant to general manager, chief accountant and financial controller of Weichai Factory, and director of Torch Automobile Group Co., Ltd.. She is now the deputy general manager of Weichai Group Holdings Limited. Ms. Zhang is a senior accountant and Certified Public Accountant and holds a bachelor's degree. She has extensive experience in finance management, finance structure and debt restructuring. Her term of appointment will expire on 17th December, 2008.

Directors, Supervisors and Senior Management

Mr. Liu Huisheng, Chinese, aged 42, is a Non-executive Director of the Company. 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 director of the purchasing department, the general manager of Chongqing Weichai Diesel Engine Factory, the assistant general manager of Weichai Factory, and the deputy general manager of Weichai Factory. He is now the deputy general manager of Weichai Group Holdings Limited and general manager of Shandong Juli Co., Ltd.. Mr. Liu is a senior economist and holds a bachelor's degree in engineering. He has extensive experience in corporate general management and production operation management. His term of appointment will expire on 17th December, 2008.

Mr. Yao Yu, Chinese, aged 37, is a Non-executive Director of the Company. He had held positions of secretary to Board of 深圳合眾實業股份有限公司 (Shenzhen Hezhong Industrial Co. Ltd.) and assistant general manager of 深圳天極電業股份有限公司 (Shenzhen Tianji Electric Co. Ltd.). Mr. Yao is now an investment manager of Shenzhen Chuangxin Investment Group Company Limited. He holds an MBA degree and has nearly 10 years of experience in investment management and related fields. His term of appointment will expire on 17th December, 2008.

Mr. Yeung Sai Hong, Chinese, aged 53, is a Non-executive Director of the Company and the chairman of Peterson Holdings Company Limited which is a promoter of the Company. He is also a member of the 9th Shandong Provincial Committee of the Chinese People's Consultative Conference. His term of appointment will expire on 17th December, 2008.

Mr. Chen Xuejian, Chinese, aged 52, is a Non-executive Director of the Company and the general manager and legal representative of Weifang Investment Company, Mr. Chen served as deputy director of Finance Bureau of Weifang and deputy director of Tax Bureau of Weifang. His term of appointment will expire on 17th December, 2008.

Mr. Li San Yim, Chinese, aged 56, is a Non-executive Director of the Company. Mr. Li founded Fujian Longyan Construction Machinery (Group) Company Limited (a promoter of the Company) in 1993, of which he is the chairman. His term of appointment will expire on 17th December, 2008.

Mr. Julius G. Kiss, German, aged 80, is a Non-executive Director of the Company. He is the chairman of IVM Technical Consultants Wien G.m.b.H. which is a promoter of the Company. His term of appointment will expire on 17th December, 2008.

Ms. Han Xiaoqun, Chinese, aged 57, is a Non-executive Director of the Company. Ms. Han is the general manager of 山東省外商投資服務公司 (Shandong Foreign Investment Service Company) and the chairman of 山東省企業託管經營股份有限公司 (Shandong Provincial Enterprises Trusteeship & Operation Co., Ltd.) which is a promoter of the Company. Her term of appointment will expire on 17th December, 2008.

Mr. Zhang Xiaoyu, Chinese, aged 62, is an Independent Director of the Company. Mr. Zhang served as the Deputy Director of 中國國家機械工業局 (State Mechanic Industry Bureau of the PRC). He is a senior engineer with professor-grade treatment. Mr. Zhang is the vice-chairman of 中國機械工業聯合會 (China Machinery Industrial Association), chairman of 中國汽車工程學會 (China Vehicles Engineering Association) and chairman of 中國內燃機學會 (China Internal Combustion Engine Association). His term of appointment will expire on 17th December, 2008.

Directors, Supervisors and Senior Management

Mr. Koo Fook Sun, **Louis**, English, aged 51, is an Independent Director of the Company. Mr. Koo is the managing director of Hercules Capital Limited. He served various positions for many international investment banks and directorship and chief executive officer for Hong Kong listed companies. Besides, he currently also serves as an independent director of other companies listed on the main board and the GEM of Hong Kong Stock Exchange. He graduated with a bachelor degree in business administration from the University of California at Berkeley and is a member of the Hong Kong Institute of Certified Public Accountants. His term of appointment will expire on 17th December, 2008.

Mr. Fang Zhongchang, Chinese, aged 65, is an Independent Non-executive Director of the Company. Mr. Fang was graduated from Harbin Industrial University. He previously served as engineer at 山東安邱玻璃廠 (Shandong Anqiu County Glasswork), deputy mayor of 安丘縣 (Anqiu County), deputy mayor of Weifang Municipal Government, secretary to the Municipal Disciplinary Committee of the Standing Committee of Weifang Municipal Committee, and deputy director of the Standing Committee of Weifang Municipal People's Congress. He was also a visiting researcher at the Chinese Academy of Management Science and a Representative of the People's Congress for the Shandong Province. He retired from civil service in 2002. His term of appointment will expire on 17th December, 2008.

Mr. Gu Linsheng, Chinese, aged 67, is an independent director of the Company. He served as an independent director of Torch Automobile Group Co., Ltd. from September, 2003 to 30th April, 2007. He holds office of directorship up to 17th December, 2008.

Mr. Li Shihao, Chinese, aged 67, is an independent director of the Company retired in February 2001. He was the director of 科學技術委員會 (science and technology committee) and 城市車輛專家委員會 (urban vehicle specialist committee) of the Ministry of Construction from 2001 to 2007. He holds office of directorship up to 17th December, 2008.

Mr. Liu Zheng, Chinese, aged 60, is an independent director of the Company. Mr. Liu was the general manager of Weifang Investment Company. He retired in February 2004. He holds office of directorship up to 17th December, 2008.

(2) Supervisors

Mr. Sun Chengping, Chinese, aged 60, is Chairman of the Supervisory committee of the Company. He joined Weichai Factory in 1969 and was the refinement workshop supervisor, deputy general manager and Party committee secretary of Weichai Factory, and supervisor of Torch Automobile Group Co., Ltd.. He is now the general manager of Weichai Group Holdings Limited. Mr. Sun is a senior economist and holds a junior college's degree. He has extensive experience in diesel engine production management and technology renovation. His term of appointment will expire on 17th December, 2008.

Mr. Ding Yingdong, Chinese, aged 39, is a supervisor of the Company. Mr. Ding joined Weichai Factory in 1990 and has previously held various positions at Weichai Factory including as an assistant to director of marketing management department, assistant to director of corporate planning department, deputy director of corporate planning department and director of human resources department of Weichai Factory. He has also held the position of director of human resources and corporate management department of Weichai Group Holdings Limited. Mr. Ding is a senior economist and senior human resources manager and holds a bachelor's degree in engineering. He has extensive experience in corporate management. Mr. Ding currently holds the positions of director of operational management department and director of human resources of Weichai Group Holdings Limited. He was appointed on 22nd October, 2007 to replace Mr. Wang Yong. He holds office of supervisorship up to 17th December, 2008.

Ms. Jiang Jianfang, Chinese, aged 45, is a Supervisor of the Company. She was the deputy chief of the financial audit committee of 廣西柳工集團有限公司 (Guangxi Liugong Group Company Limited) and a supervisor of 廣西柳工機械股份有限公司 (Guangxi Liugong Machinery Company Limited). Ms. Jiang is an accountant. Her term of appointment will expire on 17th December, 2008.

(3) Senior Management

Mr. Zhang Yupu, Chinese, aged 64, is an Executive President of the Company. Mr. Zhang holds a bachelor's degree and is a senior economist. He was honored "National Labor Model" and entitled specialist who can receive state special allowance. Mr. Zhang had held various positions including deputy general manager, chief economist, executive deputy general manager, general manager of 陝西汽車製造總廠 (Shaanxi Automobile General Works), and the deputy president of Torch Automobile Group Co., Ltd.. He currently holds the positions of chairman of Shaanxi Automobile Group Co., Ltd. and the deputy chairman of Shaanxi Heavy-duty Motor Company Limited. His term of appointment will expire on 17th December, 2008.

Mr. Li Dakai, Chinese, aged 54, is an Executive President of the Company. Mr. Li holds a bachelor's degree and is a senior engineer with researcher-grade treatment. He was honored "National Labor Model" and entitled specialist who can receive state special allowance. Mr. Li had held various positions including director of product design department, director of operation planning department, chief economist, general manager of Shaanxi Auto Gear General Works and deputy president of Torch Automobile Group Co., Ltd.. He currently holds the position of chairman and general manager of Shaanxi Fast Auto Drive Group Company and general manager of Shaanxi Fast Gear Co., Ltd.. His term of appointment will expire on 17th December, 2008.

Mr. Xu Hong, Chinese, aged 48, is an Executive President and the director of production department of the Company. He joined Weichai Factory in 1976 and was the deputy section chief of 鑄造分廠設備動力科 (equipment power section of foudry branch), deputy general manager of foudry branch, general manager of 鑄鍛廠 (cast branch) and director of production department. Mr. Xu holds a bachelor's degree. He has extensive experience in production and safe and environment protection. His term of appointment will expire on 17th December, 2008.

Mr. Zhang Yuanfu, Chinese (Hong Kong), aged 43, is Chief Financial Officer, Company Secretary and Qualified Accountant of the Company and is responsible for the accounting and finance functions and secretary affairs of the Company. Mr. Zhang joined the Company in September 2003. Mr. Zhang is a fellow member of the Association of Chartered Certified Accountants in the United Kingdom and an associated member of the Hong Kong Institute of Certified Public Accountants. Mr. Zhang has worked for a number of listed companies in the main board and the GEM board of Hong Kong Stock Exchange and has over 18 years of experience in accounting and financial management. His term of appointment will expire on 17th December, 2008.

Mr. Dai Lixin, Chinese, aged 40, is the Secretary to the Board and Director of Securities department of the Company. He joined Weichai Factory in 1987 and was the deputy director of the treasury department of Weichai Factory. Mr. Dai is an economist and a university graduate. He has extensive experience in IPO, restructure and M&A. Mr. Dai was honored "中國優秀董秘" (distinguished secretary to the board in the PRC) of 2007 by Shanghai Securities News and Guanghua School of management, Peking University. His term of appointment will expire on 17th December, 2008.

Directors, Supervisors and Senior Management

Mr. Feng Gang, Chinese, aged 44, is the vice president of the Company and the deputy general manager of the marketing company. He was manager of technology service department, assistant general manager and executive deputy general manager of sales company and deputy director of marketing management department of Weichai Factory, and deputy general manager of Weichai Power. His term of appointment will expire on 17th December, 2008.

Mr. Tong Dehui, Chinese, aged 44, is the vice president and the supervisor of the engineering department of the Company. He was the deputy chief engineer, supervisor of the laboratory of engineering department, assistant supervisor, deputy supervisor, Secretary of Party Branch of engineering department of Weichai Factory, deputy general manager of Weichai Power. His term of appointment will expire on 17th December, 2008.

Mr. Li Zhi, Chinese, aged 49, is the vice president of the Company. Mr. Li holds a bachelor's degree and is a senior economist. He was the deputy section chief, section chief, deputy general manager of Xinjiang Xinghuo Machinery Factory, general manager of Xinjiang Bearing Factory General Works, general manager of Zhuzhou headquarter of TAGC, supervisor, general manager of investment management department, deputy president of Torch Automobile Group Co., Ltd.. His term of appointment will expire on 17th December, 2008.

Mr. Zhou Zhijun, Chinese, aged 39, is the vice president of the Company. Mr. Zhou is an economist and holds a bachelor's degree. He was the planner of Zhuzhou Spark Plug Factory, the first deputy chief economist, director of corporate management department, chief economist of TAGC, director of strategic development department, director, deputy president of Torch Automobile Group Co., Ltd.. His term of appointment will expire on 17th December, 2008.

Mr. Zhou Chongyi, Chinese, aged 43, is the vice president of the Company. Mr. Zhou holds a bachelor's degree and is a senior engineer. He was the deputy supervisor of engineering department, deputy chief engineer of China National Heavy Duty Truck Group Corp., Ltd., deputy chief engineer of Shanghai Huizhong Automobile Co. Ltd. His term of appointment will expire on 17th December, 2008.

Mr. Qian Cheng, Chinese, aged 45, is the vice president of the Company. Mr. Qian graduated with a doctor's degree from University of Kentucky. He was the senior project engineer of engineering department of Caterpillar in the USA, senior project manager of North America engineering department of 里犬多公司 in the UK, senior design engineer of product design — chassis department of Ford Motor Company in USA, senior project engineer of product design center of General Motors in the USA, deputy president and director of international business department of Torch Automobile Group Co., Ltd.. His term of appointment will expire on 17th December, 2008.

Mr. Liu Xinhua, Chinese, aged 52, is the vice president of the Company. Mr. Liu holds a junior college's degree. He was the dispatcher of forging workshop, deputy director and director of production department, deputy general manager, executive general manager, acting general manager, deputy Party committee secretary of Hangzhou Engine Co., Ltd.. His term of appointment will expire on 17th December, 2008.

Directors' Report

The Directors present their annual report and the audited consolidated financial statements for the year ended 31st December, 2007.

Principal Activities

The principal activities of the Group is the manufacture and sales of diesel engines, related parts, automobiles and other major automobile components, minor automobile components and import and export services. The activities of its principal associates and subsidiaries are set out in notes 23 and 42 respectively to the consolidated financial statements, respectively.

Re-statement Of 2006 Financial Information

The consolidated financial statements for the year ended 31st December, 2006 were re-stated as a result of recognizing Torch Automobile Group Co. Ltd ("TAGC") as a 28.12% subsidiary with effect from 29th December, 2006.

On 23rd April, 2007, the Group completed its acquisition of the remaining 71.88% interest in TAGC that it had not already owned.

Further details of the above are set out in note 2 to the consolidated financial statements.

Merger and Acquisition

On 12th November, 2006, the Company entered into an agreement (the "Merger Agreement") with Torch Automobile Group Co. Ltd. ("TAGC") in respect of the merger by absorption by the Company of TAGC (the "Merger"). The Merger involved the issue by the Company of approximately 190.65 million "A" shares to the then shareholders of TAGC (other than 濰柴動力(濰坊)投資有限公司 (Weichai Power (Weifang) Investment Co., Ltd.)). The Merger was completed on 23rd April, 2007 and the "A" shares have been listed on the Shenzhen Stock Exchange since 30th April, 2007.

TAGC and its subsidiaries are one of China's leading automobile manufacturers and are principally engaged in the manufacture and sale of heavy-duty trucks, heavy-duty transmissions, spark plugs, axles, chassis, air-conditioner compressors, etc.

Results and Appropriations

The results of the Group for the year ended 31st December, 2007 are set out in the consolidated income statement on page 15.

The Directors recommended the payment of a final dividend of RMB0.44 per share for the year ended 31st December, 2007.

Share Capital

Details of movements during the year in the share capital of the Company are set out in note 35 to the consolidated financial statements.

Directors' Report

Property, Plant and Equipment

Details of movements during the year in movements during the year in the property, plant and equipment of the Group are set out in note 17 to the consolidated financial statements.

Investment Properties

Details of movements during the year in the investment properties of the Group are set out in note 19 to the consolidated financial statements.

Distributable Reserves

The amount of the Company's reserves available for distribution to shareholders as at 31st December, 2007, calculated in accordance with the profit as reported under the relevant accounting principles and financial regulations applicable to companies established in the People's Republic of China (the "PRC") or Hong Kong Financial Reporting Standards, whichever is less, was RMB2,014.9 million.

Directors and Supervisors

The Directors and Supervisors of the Company during the year and up to the date of this report were:

Executive Directors:

Tan Xuguang *(Chairman and CEO)*
Xu Xinyu *(Executive President)*
Sun Shaojun *(Executive President)*
Zhang Quan *(Executive President)*

Non-Executive Directors:

Yeung Sai Hong
Chen Xuejian
Yao Yu
Li San Yim
Liu Huisheng
Zhang Fusheng
Julius G. Kiss
Han Xiaoqun
Liu Zheng
Li Shihao
Gu Linsheng

Independent Non-Executive Directors:

Koo Fook Sun, Louis
Zhang Xiaoyu
Fang Zhongchang

Supervisors:

Sun Chengping	
Wang Yong	(resigned on 22nd October, 2007)
Ding Yingdong	(appointed on 22nd October, 2007)
Jiang Jianfang	

Directors' and Supervisors' Service Contracts

Each of the Executive Directors has entered into a service contract with the Company which commenced from 18th December, 2005 and is to end on 17th December, 2008.

The term of appointment of each of the Non-Executive Directors and Supervisors is from 18th December, 2005 to 17th December, 2008, except that of Liu Zheng, Li Shihao, Gu Linsheng who were appointed on 29th December, 2006 at the Company's extraordinary general meeting and their term of office runs for the period from the date of appointment to 17th December, 2008.

Each of the Independent Non-Executive Directors has a fixed term of appointment commencing from the date of his appointment by the shareholders of the Company and ending on the conclusion of the next annual general meeting of the Company. At the annual general meeting, each of the Independent Non-Executive Directors will offer himself for re-election for a term ending (i) on the next annual general meeting of the Company ("Next AGM"); or (ii) on the conclusion of the extraordinary general meeting (if any) of the Company convened prior to the Next AGM at which he is re-appointed as Independent Non-Executive Director for a term beyond the conclusion of the Next AGM (whichever is the earlier). The term of appointment of each Independent Non-Executive Directors of the Company is for the period upto 17th December, 2008.

The Company has received, from each of the Independent Non-Executive Directors, an annual confirmation of his independence pursuant to Rule 3.13 of the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited (the "Listing Rules"). The Company considers all of the Independent Non-Executive Directors are independent.

Directors' and Supervisors' Interests in Shares and Underlying Shares

As at 31st December, 2007, 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 of Hong Kong Limited pursuant to the Model Code for Securities Transactions by Directors of Listed Companies ("Model Code"), were as follows:

Name of Director	Capacity	Number of "A" shares held	Percentage of the issued share capital of the Company
Tan Xuguang	Beneficial owner	4,300,000 *(Note 1)*	0.8%
Xu Xinyu	Beneficial owner	1,000,000 *(Note 1)*	0.2%
Sun Shaojun	Beneficial owner	1,000,000 *(Note 1)*	0.2%
Zhang Quan	Beneficial owner	1,000,000 *(Note 1)*	0.2%
Liu Huisheng	Beneficial owner	600,000 *(Note 1)*	0.1%
Yeung Sai Hong *(Note 3)*	Held by controlled corporation	23,500,000 *(Note 2)*	4.5%
Li San Yim *(Note 4)*	Held by spouse and controlled corporation	21,500,000 *(Note 1)*	4.1%
Julius G. Kiss *(Note 5)*	Held by controlled corporation	10,750,000 *(Note 2)*	2.1%
Name of Supervisor			
Wang Yong	Beneficial owner	350,000 *(Note 1)*	0.1%

Notes:

1. *These were previously domestic shares of the Company. The domestic shares were ordinary shares issued by the Company, with a Renminbi-denominated par value of RMB1.00 each, which were subscribed for and paid up in Renminbi or credited as fully paid up. These shares became "A" shares of the Company upon the "A" share listing of the Company on the Shenzhen Stock Exchange during the current financial year.*

2. *These were previously foreign shares of the Company. The foreign shares were ordinary shares issued by the Company, with a Renminbi-denominated par value of RMB1.00 each, which were subscribed for and paid up in a currency other than Renminbi. These shares became "A" shares of the Company upon the "A" share listing of the Company on the Shenzhen Stock Exchange during the current financial year.*

3. *Yeung Sai Hong, a Non-Executive Director, was directly and indirectly interested in the issued share capital of Peterson Holdings Company Limited ("Peterson"), which in turn held 23,500,000 shares in 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 福建龍岩工程機械(集團)有限公司 (Fujian Longgong Construction Machinery (Group) Company Limited ("Fujian Longgong")) which in turn held 21,500,000 shares in 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 shares in 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 31st December, 2007.

Details of Changes in Share Capital and Substantial Shareholders' Shareholdings

(I) Changes in shareholdings

1. *Changes in share capital*

Following the Merger, the Company's "A" shares successfully listed on the Shenzhen Stock Exchange on 30th April, 2007. Movement of the Company's share capital during the year are as follows:

	Beginning of the Year		Increase/decrease during the Year (+, -)					End of the Year	
	No. of shares	Percentage (%)	New shares issued	Bonus issue	Transfer of surplus to capital	Others	Sub-total	No. of shares	Percentage (%)
I. Restricted circulating shares	203,500,000	61.67%	15,140,586			161	15,140,747	218,640,747	41.99%
1. State-owned shares			15,140,586				15,140,586	15,140,586	2.91%
2. State-owned legal person shares	101,450,000	30.74%						101,450,000	19.49%
3. Shares held by other domestic entities including:	67,800,000	20.55%				161	161	67,800,161	13.02%
Shares held by non State-owned legal persons	53,000,000	16.06%						53,000,000	10.18%
Shares held by domestic natural persons	14,800,000	4.48%				161	161	14,800,161	2.84%
4. Shares held by other foreign entities including:									
Shares held by overseas legal persons	34,250,000	10.38%						34,250,000	6.58%
Shares held by overseas natural persons	34,250,000	10.38%						34,250,000	6.58%
II. Non-restricted circulating shares	126,500,000	38.33%	175,512,966			-161	175,512,805	302,012,805	58.01%
1. RMB ordinary shares			175,512,966			-161	175,512,805	175,512,805	33.71%
2. Domestic listed foreign shares									
3. Overseas listed foreign shares	126,500,000	38.33%						126,500,000	24.3%
4. Others									
III. Total number of shares	330,000,000	100%	190,653,552			—	190,653,552	520,653,552	100%

Notes:

1. *Under the approval of the Extraordinary General Meeting and the Class General Meetings of the Company held on 29th December, 2006 and the sanction of the CSRC Zheng Jian Fa Xing Zi No. [2007] 64 (監發行字[2007]64號) 30th March, 2007, the Company issued 190,653,552 shares and completed the merger by share conversion and absorption of TAGC. The Company's "A" Shares were listed on the Shenzhen Stock Exchange on 30th April, 2007 under the approval of the Shenzhen Stock Exchange.*

2. *Other movements are that Mr. Zhang Yupu assumed the responsibility as an executive officer during the year, the 161 shares originally held by him became restricted shares.*

3. *There is no internal staff share during the reporting period.*

2. *Time over which shares are restricted*

Time	Additional shares that can be listed and traded upon expiry of the restricted period	Remaining restricted Shares	Remaining non-restricted Shares	Description
30th April, 2010	218,640,586	—	—	Under the commitments of the holders of non-circulating shares of the Company and 24 natural-person promoter shareholders, none of their shares can be transferred within 36 months commencing from the Company's listing on the Shenzhen Stock Exchange.
30th April, 2008	40	121	—	The shares are held by officer Zhang Yupu and can be transferred after the first anniversary of the listing of the shares of the Company in accordance with the relevant rules of CSRC.

3. *Shareholdings of the top ten restricted shareholders and the restrictions*

<table>
<tr><th>Serial No</th><th>Names of restricted shares shareholders</th><th>Number of restricted shares held</th><th>Time permitted to be listed and traded in the market</th><th>Number of Shares permitted to be listed and traded in the market</th><th>Restriction</th></tr>
<tr><td>1.</td><td>潍柴控股集團有限公司 (Weichai Group Holdings Limited) ("Weichai Holdings")</td><td>77,647,900</td><td>30th April, 2010</td><td>–</td><td rowspan="10">Under the commitments of the 9 legal person shareholders (including (Weichai Group Holdings Limited), no shares held by them shall be transferred or managed by other person or repurchased by Weichai Power within 36 months commencing from Weichai Power's listing on the Shenzhen Stock Exchange.

Under the commitments of the 24 nature person shareholders (including Tan Xuguang), no shares held by them shall be beneficially transferred or repurchased by Weichai Power within 36 months commencing from Weichai Power's listing on the Shenzhen Stock Exchange.</td></tr>
<tr><td>2.</td><td>Peterson Holdings Company Limited</td><td>23,500,000</td><td>30th April, 2010</td><td>–</td></tr>
<tr><td>3.</td><td>福建龍岩工程機械(集團)有限公司 (Fujian Longyan Construction Machinery (Group) Company Limited)</td><td>21,500,000</td><td>30th April, 2010</td><td>–</td></tr>
<tr><td>4.</td><td>深圳市創新投資集團有限公司 (Shenzhen Chuangxin Investment Group Company Limited)</td><td>21,500,000</td><td>30th April, 2010</td><td>–</td></tr>
<tr><td>5.</td><td>濰坊市投資公司 (Weifang Investment Company)</td><td>19,311,550</td><td>30th April, 2010</td><td>–</td></tr>
<tr><td>6.</td><td>株洲市國有資產投資經營有限公司 (Zhuzhou State-owned Assets Administration Management Company Limited)</td><td>15,140,586</td><td>30th April, 2010</td><td>–</td></tr>
<tr><td>7.</td><td>奧地利IVM技術諮詢維也納有限公司 (IVM Technical Consultants Wien Gesellschaft m.b.H)</td><td>10,750,000</td><td>30th April, 2010</td><td>–</td></tr>
<tr><td>8.</td><td>山東省企業託管經營股份有限公司 (Shandong Enterprise Trust Operation Company Limited)</td><td>10,000,000</td><td>30th April, 2010</td><td>–</td></tr>
<tr><td>9.</td><td>廣西柳工集團有限公司 (Guangxi Liugong Group Limited)</td><td>4,490,550</td><td>30th April, 2010</td><td>–</td></tr>
<tr><td>10.</td><td>Tan Xuguang</td><td>4,300,000</td><td>30th April, 2010</td><td>–</td></tr>
</table>

(II) Shareholdings of the Substantial Shareholders

Total number of Shareholders — The number of shareholders is 58,634 among which 58,343 are shareholders of "A" share and 291 are shareholders of "H" share

Shareholdings of the top ten shareholders

Names of shareholders	Type of shareholders	Approximate percentage of shares held (%)	Total number of shares held	Number of restricted shares held	Number of shares pledged or frozen
HKSCC Nominees Limited	Foreign shareholder	24.33%	126,154,699	—	N/A
濰柴控股集團有限公司 (Weichai Group Holdings Limited)	State-owned legal person	14.91%	77,647,900	77,647,900	—
Peterson Holdings Company Limited	Overseas legal person	4.51%	23,500,000	23,500,000	—
深圳市創新投資集團有限公司 (Shenzhen Chuangxi Investment Group Co.,Ltd)	Domestic non state-owned legal person	4.13%	21,500,000	21,500,000	—
福建龍岩工程機械(集團)有限公司 (Fujian Longyan Construction Machinery (Group) Company Limited)	Domestic non state-owned legal person	4.13%	21,500,000	21,500,000	—
濰坊市投資公司 (Weifang Investment Company)	State-owned legal person	3.71%	19,311,550	19,311,550	—
株洲市國有資產投資經營有限公司 (Zhuzhou State-owned Assets Administration Management Company Limited)	State-owned	2.91%	15,140,586	15,140,586	7,570,000
奧地利IVM技術諮詢維也納有限公司 (IVM Technical Consultants Wien Gesellschaft m.b.H)	Overseas legal person	2.06%	10,750,000	10,750,000	—
山東省企業託管經營股份有限公司 (Shandong Enterprise Trust Operation Company Limited)	Domestic non state-owned legal person	1.92%	10,000,000	10,000,000	—
Industrial and Commercial Bank of China — 南方績優成長股票型證券投資基金	Domestic non state-owned legal person	1.54%	8,031,988	—	—

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 at 31st December, 2007.

Shareholdings of the top ten non-restricted shareholders

Names of shareholders	Number of the non-restricted shares held	Types of shares
HKSCC Nominees Limited	125,954,699	Overseas listed foreign shares
Industrial and Commercial Bank of China — 南方績優成長股票型證券投資基金	8,031,988	RMB ordinary shares
Bank of China — 華寶興業先進成長股票型證券投資基金	4,980,000	RMB ordinary shares
Industrial and Commercial Bank of China — 廣發穩健增長證券投資基金	4,299,937	RMB ordinary shares
Agricultural Bank of China — 中郵核心優股票型證券投資基金	4,054,302	RMB ordinary shares
Industrial and Commercial Bank of China — 易方達價值成長混合型證券投資基金	4,004,642	RMB ordinary shares
Bank of China — 南方高增長股票型開放式證券投資基金	3,500,000	RMB ordinary shares
Bank of China — 海富通股票證券投資基金	3,441,652	RMB ordinary shares
Industrial and Commercial Bank of China — 華安中心盤成長股票型證券投資基金	3,072,319	RMB ordinary shares
China Construction Bank — 富國天博創新主題股票證券投資基金	2,700,019	RMB ordinary shares

Description of the connected relationship or acting in concert relationship among the aforesaid shareholders:

1. Among the aforementioned shareholders, 南方績優成長股票型證券投資基金 and 南方高增長股票型開放式證券投資基金 both are managed by a fund manager, namely 南方基金管理公司 (Southern China Southern Fund Management Co., Ltd).

2. Save as the aforementioned, it's not certain whether there is any connected relationship between the top ten shareholders and the other top ten non-restricted shareholders, or whether there is any acting in concert relationship between them.

Directors' Report

Details of the Directors, Supervisors and Chief Executives

I. Shareholdings of the Directors, Supervisors and Chief Executives

Nine of the directors, supervisors and chief executives of the Company, namely Tan Xuguang, Xu Xinyu, Zhang Quan, Sun Shaojun, Liu Huisheng, Tong Dehui, Dai Lixin, Feng Gang and Wang Yong (resigned on 22nd October, 2007, who are both chief executives and among the 24 natural-person promoter shareholders, have undertook that they will not transfer any shares of the Company within 36 months commencing from its listing on the Shenzhen Stock Exchange until the restriction period is expired, when the share held thereon can be transferred in accordance with the relevant rules of China Securities Regulatory Commission and Shenzhen Stock Exchange. Furthermore, the 161 shares originally held by executive officer Zhang Yupu have been frozen, and can be transferred from 30th April, 2008 in accordance with the relevant rules of China Securities Regulatory Commission and Shenzhen Stock Exchange.

II. Appointment and Resignation of the Directors, Supervisors and Officers

1. Gu Linsheng, Li Shihao and Liu Zheng were appointed as additional non-executive directors of the Company under the approval of the 2006 Extraordinary General Meeting of the Company held on 29th December, 2006. They shall hold office from the completion date of the Company's merge by absorption of TAGC until 17th December, 2008.

2. Subject to the review on the fifth meeting of the second phase of the board meeting, Zhang Yupu and Li Dakai were appointed as executive chief executive officers of the Company.

3. Subject to the review on the first board meeting, Li Zhi, Zhou Zhijun. Zhou Chongyi and Liu Xinhua as the vice president of the Company.

4. Ding Yingdong was appointed as the supervisor of the second phase of the supervisory committee of the Company under the approval of the labour representatives meeting on 22nd October, 2007.

Connected Transactions and Directors' and Supervisors' Interests in Contracts of Significance

Details of the transactions regarded as connected transactions for the year are included in note 40(a) to the consolidated financial statements.

Save as disclosed in note 40(a), no contracts of significance to which the Company or any of its subsidiaries was a party and in which a Director or a Supervisor of the Company had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

The Independent Non-Executive Directors have reviewed the continuing connected transactions included in note 40(a) to the consolidated financial statements and have confirmed that the relevant transactions were entered into by the Company and its subsidiaries in the ordinary course of their business, on normal commercial terms, and in accordance with the terms of the agreements governing such transactions that were fair and reasonable and in the interests of the shareholders of the Company as a whole.

Emolument Policy

The emolument policy of the employees of the Group is set up by the Remuneration Committee on the basis of their merit, qualifications and competence.

The emoluments of the Directors of the Company are decided by the Remuneration Committee, having regard to the Group's operating results, individual performance and comparable market statistics.

Arrangements 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.

Purchase, Sale or Redemption of Listed Securities of the Company

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

Pre-emptive Rights

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

Major Customers and Suppliers

The aggregate sales during the year attributable to the Group's five largest customers were less than 30% of the Group' total sales.

The aggregate purchase during the year attributable to the Group's five largest suppliers were less than 30% of the Group's total purchases.

Save as disclosed above, at no time during the year did a Director, a Supervisor, an associate of a Director or a shareholder of the Company, which to the knowledge of the Directors, own more than 5% of the Company's share capital, have an interest in any of the Group's five largest suppliers or customers.

Audit Committee

The Audit Committee comprises 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 audited consolidated financial statements for the Period.

Compliance with Code on Corporate Governance Practices in Appendix 14 of the Listing Rules

Throughout the Period, other than the roles of the Chairman and the Chief Executive Officer being performed by Mr.Tan Xuguang ("Mr. Tan"), the Company has complied with all the code provisions of the Code on Corporate Governance Practices as set out in Appendix 14 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules").

Mr. Tan is in charge of the overall management of the Company. The Company considers that the combination of the roles of the Chairman and the Chief Executive Officer can promote the efficient formulation and implementation of the Company's strategies which will enable the Group to grasp business opportunities efficiently and promptly. The Company considers that through the supervision of its Board and its Independent Non-executive Directors, a balancing mechanism exists so that the interests.

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.

Sufficiency of Public Float

The Company has maintained a sufficient public float throughout the year ended 31st December, 2007.

Donations

During the year, the Group made charitable donation amounting to RMB4,435,000.

Auditors

A resolution will be submitted to the annual general meeting to re-appoint 山東正源和信有限責任會計師事務所 (Shandong Zheng Yuan Hexin Accountants Limited) as auditor of the Company for its accounts prepared under PRC accounting principles and financial regulations.

Another resolution will also be submitted to the annual general meeting to re-appoint Messrs. Deloitte Touche Tohmatsu as auditor of the Company for its accounts prepared under Hong Kong Financial Reporting Standards.

Approval of the audited Consolidated Financial Statement

The audited consolidated financial statements for the Period have been approved by the Board on 29th April, 2008.

Publication of Annual Report on the websites of the Stock Exchange of Hong Kong Limited and the Company

The 2008 Annual Report will be despatched to Shareholders as well as made available on The Stock Exchange of Hong Kong Limited's website at www.hkex.com.hk and the Company's website at www.weichai.com.

On behalf of the Board

Tan Xuguang
Chairman and CEO
Hong Kong
29th April, 2008

Supervisory Committee's Report

Dear Shareholders,

During the Period, in accordance with the relevant provisions of the Company Law of the People's Republic of China (the "Company Law") and the Articles of Association of the Company and in compliance with the principles of integrity, all members of the Supervisory Committee of the Company (the "Supervisory Committee") performed their duties of supervision with a view to protecting shareholders' interests in line with their accountability to all shareholders. They monitored the operations and financial position as well as the performance of the senior management of the Company during the period. On behalf of the Supervisory Committee, I hereby present our report as follows:

Overview of the Work of the Supervisory Committee

In 2007, as required by the relevant rules and procedures of meetings of the Supervisory Committee and based on its actual work, the Supervisory Committee conducted inspections of the operations and financial position of the Company, and reviewed the financial statements regularly. In 2007, the Supervisory Committee held four meetings. Details of the time, attendance and contents of the meetings are as follows:

1. On 17th April, 2007, the third meeting of the second phase of the Supervisory Committee was convened. All Supervisors were present. The meeting considered and approved the resolutions of i) the annual financial report of the Company for 2006; ii) the report of the Supervisory Committee for 2006; iii) the consolidated financial statements and auditors' report for 2006; and iv) the profit distribution proposal for 2006.

2. On 9th June, 2007, the fourth meeting of the second phase of the Supervisory Committee was convened. All Supervisors were present. The meeting considered and approved the resolutions of "Rules of Supervisory Committee meeting of Weichai Power Co., Ltd.".

3. On 28th August, 2007, the fifth meeting of the second phase of the Supervisory Committee was convened. All Supervisors were present. The meeting considered and approved the interim financial report of the Company for 2007.

4. On 26th October, 2007, the first provisional meeting of the Supervisory Committee was convened. All Supervisors were present. The meeting considered and approved the third quarterly financial report of the Company for 2007.

The four meetings were convened in compliance with the relevant provisions of the Company Law and the Articles of Association of the Company.

Independent Opinion of the Supervisory Committee on Relevant Matters of the Company in 2007

Compliance of the Company's operations with Legal Requirements

During the Period, after the completion of the merger with TAGC, the Company further enhanced the internal management system. Pursuant to the laws and regulations of the place of listing, the Supervisory Committee has duly supervised and examined the procedures for convening Board meetings, resolutions, performance of duties by the senior management of the Company, as well as the establishment and consistent implementation of the Company's internal management system.

Supervisory Committee's Report

The Supervisory Committee is of the view that the Board and the senior management of the Company strictly operated in accordance with the Company Law, the Articles of Association as well as other relevant regulations and rules of the place of listing, with integrity and diligence. They performed their duties, executed all resolutions and authorities of the shareholders' general meetings, and conducted all operations in compliance with laws and regulations and the Articles of Association. When examining the financial position of the Company and monitoring the performance of the directors and the senior management of the Company, the Supervisory Committee was not aware of any act harmful to the interests of the Company and its shareholders, nor was there any act in breach of the laws, regulations, the Articles of Association and the rules of the Company.

Examination of Financial Position of the Company

In 2007, the Supervisory Committee further enhanced its internal control, especially the examination of financial system. The Company has established a comprehensive system on foreign investment, asset transfer and connected transactions, etc. The Supervisory Committee is of the view that the Company strictly operated and executed in accordance with the relevant law and regulations of PRC and of China Securities Regulatory Commission. On the control of capital turnover and management fee, the Company strictly checked on each grade which ensured the operation process as well as avoided financial risk.

During the Period, the rapid growth of the machinery manufacturing section drove the growth of the Company's financial indices. Revenue increased by approximately 327.9% over 2006 to approximately RMB27,425.0 million. Gross profit increased by 250.7% over last year to approximately RMB6,632.5 million while the net profit attributable to shareholders increased by 186.7% over last year to approximately RMB2,014.9 million.

The Supervisory Committee is of the view that the financial statements of the Company reflect the financial position and operating results of the Company in all material aspects in an objective, true and fair manner, and the financial statements are true and reliable. The Supervisory Committee has agreed on the audited financial statements issued by the auditors of Shandong Zhengyuanhexin Certified Public Accountant's Office and Deloitte Touche Tohmatsu.

Acquisition and Sell of Assets of the Company

1. During the Period, the Company acquired Torch Automobile Group Co. Ltd. ("TAGC") through the issuance of new A shares, which were listed on the Shenzhen Stock Exchange after the completion of the shareholding structure of TAGC. Upon completion of the acquisition, the Company absorbed the assets and assumed the liabilities of TAGC.

2. During the Period, the Company completed "share transfers" with eight companies including Dalian Hongyuan Machinery Co. Ltd. and Tianjin Hongben Ltd. Share transfer fees had been received. At the date of this report, the said share transfers have been completed.

The Supervisory Committee is of the view that the above transfers were in compliance with the Company Law, Securities Law of China, the Articles of Association of the Company as well as other relevant regulations and rules of Hong Kong. The prices for the above transfers were reasonable and the amounts of the transactions were within the caps as approved by the shareholders. The Supervisory Committee is not aware of any act which is harmful to the interests of the shareholders.

Supervisory Committee's Report

Connected Transactions

During the Period, the Supervisory Committee is of the view that the connected transactions of the Company during 2007 were conducted under the principles of fairness and equality. The connected transactions of the Company were constantly monitored, the prices for the connected transactions were reasonable, and the amounts of the transactions were within the caps as approved by the shareholders. The Supervisory Committee is not aware of any act which is harmful to the interests of the shareholders.

In 2008, the Supervisory Committee will continue to perform its supervision duties diligently for the protection of the interests of shareholders and the Company in accordance with the Company Law and the Articles of Association of the Company.

Sun Chengping
Chairman of the Supervisory Committee

Weifang, Shandong Province
29th April, 2008

Corporate Governance Report

The Company has always regarded the consistent maintenance of an excellent, solid and reasonable corporate governance structure as its top priority.

Code on Corporate Governance Practice

For the year ended 31st December, 2007, the Company has reviewed its corporate governance documents and is of the view that the Company has fully complied with the code provisions of the Code of Corporate Governance Practice set out in the Appendix 14 to the Listing Rules other than Code A.2.1, which requires that the roles of chairman and chief executive officer should be two separate roles and should not be performed by the same individual. Currently, Mr. Tan Xuguang ("Mr. Tan") serves as the Chairman of the Board as well as the Chief Executive Officer of the Company. Despite such deviation, the Directors believe that vesting such roles in Mr. Tan will allow for more effective planning and execution of business strategies of the Company. 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.

The Directors believe that the Articles of Association, the scope of responsibilities of the Audit Committee, the scope of responsibilities of the Supervisory Committee and the codes on securities dealings by directors and certain executives, which constitute the basis for the regular codes on corporate governance of the Company, have covered the principles and the code provisions of the Code on Corporate Governance Practice as set out in Appendix 14 to Listing Rules. In respect of the following areas, our internal corporate governance documents are more stringent than the Code on Corporate Governance Practices:

1. In addition to the Audit Committee, Remuneration Committee and Nomination Committee, the Company has also established the Strategic Development and Investment Committee (the "SDIC").

2. All members of the Audit Committee are independent non-executive Directors, of whom Mr. Koo Fook Sun, Louis, the Chairman of the Committee, holds the relevant professional qualification or professional knowledge related to accounting or financial management.

Board of Directors

The key responsibilities of the Board include, among other things, formulating the Company's overall strategies, setting management targets, regulating internal controls and financial management, and supervising the management's performance while the day-to-day operations and management are delegated by the Board to the executives of the Company.

The Board currently comprises 18 Directors, whose details are set out on page 18 to page 22 of this annual report. The Board includes four executive Directors, eleven non-executive Directors and three independent non-executive Directors, namely, Mr. Tan Xuguang (Chairman and CEO), Mr. Xu Xinyu, Mr. Sun Shaojun, Mr. Zhang Quan (executive Directors), 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, Mr. Liu Zheng, Mr. Li Shihao, Mr. Gu Linsheng (non-executive Directors), and Mr. Koo Fook Sun, Louis, Mr. Zhang Xiaoyu and Mr. Fang Zhongchang (independent non-executive Directors).

The Company has received from each of the independent non-executive Directors, an annual confirmation of his independence pursuant to Rule 3.13 of the Listing Rule and considers each of the independent non-executive Directors to be independent.

The Board has notified each of the Directors and Supervisors in advance that they should not trade in the securities of the Company within the period as stipulated under the Listing Rules. All Directors and Supervisors confirmed that they were in compliance with the Listing Rules in this respect.

Other than their working relationships with the Company, none of the Directors, Supervisors or the senior management has any financial, business or family relationships or any relationships in other material aspects with each other.

Other than the service contracts entered into by them or as otherwise disclosed in this annual report, none of the Directors or the Supervisors has any personal and substantive interest, direct or indirect, in the material contracts entered into by the Company or any of its subsidiaries during 2007.

In 2007, the Company held eight Board meetings. The principal activities of the Board in 2007 were as follow:

- Review the annual financial report of the Company for 2006;
- Review of interim profit distribution and the 2007 interim report;
- Review of the third quarterly financial report of the Company for 2007;
- Review of the merger with and acquisition of TAGC.

The total remuneration, including the basic salary, performance-linked salary, incentive-linked salary and discretionary bonus of the Directors in 2007 amounted to approximately RMB5.3 million. Independent non-executive Directors were only entitled to receive director's fees but not other salary or remuneration. For details for the remuneration of Directors, please refer to note 11 to the consolidated financial statements of the Company.

Audit Committee

An Audit Committee was established by the Board.

The Audit Committee comprises all the independent non-executive Directors, Mr. Koo Fook Sun, Louis, Mr. Zhang Xiaoyu and Mr. Fang Zhongchang, with Mr. Koo Fook Sun, Louis, with the appropriate professional qualifications and experience in financial matters, acting as the chairman of the Audit Committee. The terms of reference of the Audit Committee are aligned with the recommendations set out in "A Guide for Effective Audit Committees" issued by the Hong Kong Institute of Certified Public Accountants.

The Audit Committee held two meetings during the period, presided over by Mr. Koo Fook Sun, Louis. Details of the attendance are set out on page 38 of this annual report.

The major works accomplished by the Audit Committee during the year are as follows:

- Review of the annual, interim financial statements of the Company, as well as the management recommendations furnished by the external auditors and responses from the Company's management;
- Review of the accounting policies and practices adopted by the Company and related matters;

Corporate Governance Report

- Recommending the setting up of a supervisory committee to ensure that all connected transactions of the Company are fair, impartial and transparent, offering protection of the interests of minority shareholders; and

- Assisting the Board to monitor the Company's internal audit.

Throughout the Period under review, 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 year ended 31st December, 2006. The non-PRC auditors of the Company have audited the consolidated financial statements and have issued an unqualified auditors' report.

Strategic Development and Investment Committee

The SDIC was established by the Board.

The SDIC is principally responsible for examining and reviewing the Company's strategic plans, monitoring the implementation of strategic planning, and facilitating timely adjustments to the Company's strategies and governance structure.

The SDIC currently comprises Mr. Tan Xuguang (Chairman of the Board and of the SDIC), Mr. Sun Shao Jun, Mr. Lui Huisheng, Mr. Chen Xuejian, Mr. Zhang Quan, Mr. Li San Yim, Mr. Zhang Xiaoyu and Mr. Julius G. Kiss.

Remuneration Committee

A Remuneration Committee was established by the Board.

The Remuneration Committee is responsible for recommendation to the Board on the remuneration packages and terms of employment for Directors, Supervisors and senior management of the Company. The Committee also determines the relevant remuneration policy for Directors, Supervisors and senior management of the Company and their participations in incentive schemes operated by the Company.

The Remuneration Committee currently comprises all the independent non-executive directors and two non-executive Directors, being Mr. Koo Fook Sun, Louis (chairman of the Remuneration Committee), Mr. Zhang Xiaoyu, Mr. Fang Zhongchang, Ms. Zhang Fusheng and Mr. Yao Yu.

Nomination Committee

A Nomination Committee was established by the Board

The Nomination Committee comprises all the independent non-executive Directors and two executive directors, being Mr. Fang Zhongchang (chairman of the Nomination Committee), Mr. Koo Fook Sun, Louis, Mr. Zhang Xiaoyu, Mr. Xu Xinyu and Mr. Zhang Quan. The meetings of the Nomination Committee were arranged and held on an as-needed basis.

The Nomination Committee will identify qualified candidates to fill the Board membership whenever such vacancy arises, it will nominate such candidates for the Board to consider, regularly review the composition of the Board and make suggestions as to any change in the membership of the Board that may be required.

Supervisory Committee

The Supervisory Committee consists of three members, with one Supervisor being elected from the staff as a representative of employees and the other two elected by the shareholders of the Company. The Supervisory Committee is responsible for supervision of the Board and its members and the senior management of the Company, so as to prevent them from abusing their authorities and violating the interests of the Company, its shareholders and staff. The size and composition of the Supervisory Committee are in compliance with the requirements of the relevant laws and regulations of the PRC. The Supervisory Committee held two meetings during the year to carry out its supervision on behalf of the shareholders in respect of the Company's financial matters and the lawfulness and compliance in respect of the discharge of duties by the Directors and senior management of the Company. The members of the Supervisory Committee attended all Board meetings and shareholders' meetings of the Company and diligently performed their supervisory duties.

Attendances at meetings of the Board, Supervisory Committee and specialised committees (attendance in person/ number of meetings) during the year are as follows:

Name	Board	Supervisory Committee	Audit Committee
Directors			
Tan Xuguang	8/8		
Xu Xinyu	8/8		
Sun Shaojun	8/8		
Zhang Quan	8/8		
Yeung Sai Hong	8/8		
Chen Xuejian	8/8		
Yao Yu	8/8		
Li San Yim	8/8		
Liu Huisheng	8/8		
Zhang Fusheng	8/8		
Julius G. Kiss	8/8		
Han Xiaoqun	8/8		
Liu Zheng	8/8		
Li Shihao	8/8		
Gu Linsheng	8/8		

Corporate Governance Report

Name	Board	Supervisory Committee	Audit Committee
Independent Non-executive Directors			
Koo Fook Sun, Louis	8/8		2/2
Zhang Xiaoyu	8/8		2/2
Fang Zhongchang	8/8		2/2
Supervisors			
Sun Chengping		4/4	
Wang Yong		4/4	
Jiang Jianfang		4/4	

The Directors and Supervisors who were unable to attend any meeting in person, had appointed another Director or Supervisor (as the case may be), as his representative to attend and vote at the meeting on his behalf and was treated as having attended the meeting in person.

Shareholders Meeting and Investor Relations

The shareholders' meeting is the highest authority of the Company, providing an opportunity for direct communications and building a sound relationship between the Board and the shareholders of the Company. Therefore, the Company places great importance to such meetings. In 2007, the Company convened three general meetings. Matters reviewed and approved at the meetings include the following:

- the Report of the Directors, Report of Supervisory Committee for 2006;
- the profit distribution and final dividend distribution proposals for 2006;
- re-appointment of Directors;
- re-appointment of the external auditors and determination of its remuneration;
- remuneration proposals for Directors and Supervisors;
- renewal of continuing connected transactions;
- approval of the merger with and acquisition of TAGC;
- amendment to the Articles of Association of the Company.

Independent Auditor's Report

Deloitte.
德勤

TO THE SHAREHOLDERS OF WEICHAI POWER CO., LTD.
濰柴動力股份有限公司
(incorporated in the People's Republic of China with limited liability)

We have audited the consolidated financial statements of Weichai Power Co., Ltd. (the "Company") and its subsidiaries (collectively referred to as the "Group") set out on pages 45 to 110, which comprise the consolidated balance sheet as at 31st December, 2007, the consolidated income statement, the consolidated statement of changes in equity and the consolidated cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Directors' responsibility for the consolidated financial statements

The directors of the Company are responsible for the preparation and the true and fair presentation of these consolidated financial statements in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants and the disclosure requirements of the Hong Kong Companies Ordinance. This responsibility includes designing, implementing and maintaining internal control relevant to the preparation and the true and fair presentation of the consolidated financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditor's responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit and to report our opinion solely to you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report. We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance as to whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and true and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the consolidated financial statements.

Independent Auditor's Report

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs of the Group as at 31st December, 2007 and of the Group's profit and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

Deloitte Touche Tohmatsu
Certified Public Accountants
Hong Kong
29th April, 2008

Consolidated Income Statement

For the year ended 31st December, 2007

	Notes	2007 RMB'000	2006 RMB'000
Turnover	8	**27,424,960**	6,633,668
Cost of sales		**(20,792,486)**	(4,742,383)
Gross profit		**6,632,474**	1,891,285
Other income	9	**243,141**	99,329
Distribution costs		**(1,536,982)**	(485,562)
Administrative expenses		**(1,356,750)**	(414,059)
Research and development expenses		**(323,225)**	(169,201)
Loss on disposal of disposal group held for sale		**(101,446)**	—
Other expenses		**(27,781)**	(1,617)
Share of results of associates		**(3,169)**	32,094
Finance costs	10	**(253,120)**	(63,160)
Profit before taxation	11	**3,273,142**	889,109
Income tax expense	12	**(479,566)**	(181,099)
Profit for the year		**2,793,576**	708,010
Attributable to:			
Equity holders of the Company		**2,014,904**	702,695
Minority interests		**778,672**	5,315
		2,793,576	708,010
Dividends	15	**67,685**	120,450
Basic earnings per share	16	**RMB4.36**	RMB2.13

Consolidated Balance Sheet

At 31st December, 2007

	Notes	2007 RMB'000	2006 RMB'000 (Re-stated)
NON-CURRENT ASSETS			
Property, plant and equipment	17	**5,826,338**	5,058,459
Prepaid lease payments — non-current portion	18	**268,767**	184,931
Investment properties	19	**32,333**	31,767
Goodwill	20	**538,016**	599,552
Intangible assets	21	**253,489**	314,717
Interests in associates	23	**220,106**	161,336
Available-for-sale financial assets	24	**75,358**	84,447
Deposits paid for acquisition of property, plant and equipment	25	**926,571**	320,565
Deferred tax assets	34	**189,761**	—
		8,330,739	6,755,774
CURRENT ASSETS			
Inventories	26	**4,200,010**	2,839,480
Trade and bills receivables	27	**5,909,502**	4,001,876
Deposits, prepayments and other receivables		**857,515**	727,473
Prepaid lease payments — current portion	18	**3,754**	1,278
Disposal group held for sale	28	**278,462**	444,066
Pledged bank deposits	29	**856,109**	459,653
Bank balances and cash	29	**1,819,554**	1,625,913
		13,924,906	10,099,739
CURRENT LIABILITIES			
Trade and bills payables	30	**7,264,773**	5,215,458
Other payables and accruals		**2,180,004**	1,483,900
Amount due to a related party — non-trade	40(b)	**65,657**	66,229
Tax payable		**438,252**	333,074
Dividend payables to minority shareholders		**31,765**	—
Debentures	31	**900,000**	—
Bank and other borrowings — due within one year	32	**1,540,584**	1,939,274
Warranty Provision	33	**210,093**	81,242
		12,631,128	9,119,177
NET CURRENT ASSETS		**1,293,778**	980,562
TOTAL ASSETS LESS CURRENT LIABILITIES LIABILITIES		**9,624,517**	7,736,336

Consolidated Balance Sheet

At 31st December 2007

	Notes	2007 RMB'000	2006 RMB'000 (Re-stated)
NON-CURRENT LIABILITIES			
Amount due to a related party — non-trade	40(b)	—	61,510
Bank and other borrowings — due after one year	32	161,307	1,247,662
Deferred tax liabilities	34	65,022	67,800
		226,329	1,376,972
		9,398,188	6,359,364
CAPITAL AND RESERVES			
Share capital	35	520,654	330,000
Reserves		5,862,818	2,654,562
Equity attributable to equity holders of the Company		6,383,472	2,984,562
Minority interests		3,014,716	3,374,802
		9,398,188	6,359,364

The consolidated financial statements on pages 45 to 110 were approved and authorised for issue by the Board of Directors on 29th April, 2008 and are signed on its behalf by:

TAN XUGUANG
DIRECTOR

XU XINYU
DIRECTOR

Consolidated
Statement of Changes In Equity

For the year ended 31st December, 2007

	Attributable to equity holders of the Company											
	Share capital RMB'000	Share premium RMB'000	Capital reserve RMB'000	Statutory surplus reserve RMB'000	Statutory welfare reserve RMB'000	Revaluation reserve RMB'000	Translation reserve RMB'000	Other reserve RMB'000	Accumulated profits RMB'000	Total RMB'000	Minority interests RMB'000	Total RMB'000
At 1st January, 2006	330,000	1,106,042	30,607	112,119	56,058	–	–	–	763,755	2,398,581	62,380	2,460,961
Revaluation increase on acquisition of additional interests in an associate and income recognised directly in equity	–	–	–	–	–	3,736	–	–	–	3,736	–	3,736
Profit for the year	–	–	–	–	–	–	–	–	702,695	702,695	5,315	708,010
Total recognised income for the year	–	–	–	–	–	3,736	–	–	702,695	706,431	5,315	711,746
Dividend paid	–	–	–	–	–	–	–	–	(120,450)	(120,450)	–	(120,450)
Transfer	–	–	–	130,191	(56,058)	–	–	–	(74,133)	–	–	–
At 31st December, 2006, as previously stated	330,000	1,106,042	30,607	242,310	–	3,736	–	–	1,271,867	2,984,562	67,695	3,052,257
Prior year adjustment (Note 2)	–	–	–	–	–	–	–	–	–	–	3,307,107	3,307,107
At 31st December, 2006 (re-stated)	330,000	1,106,042	30,607	242,310	–	3,736	–	–	1,271,867	2,984,562	3,374,802	6,359,364
Exchange difference arising on transaction of foreign operation and income recognised directly in equity	–	–	–	–	–	–	(1,581)	–	–	(1,581)	–	(1,581)
Profit for the year	–	–	–	–	–	–	–	–	2,014,904	2,014,904	778,672	2,793,576
Total recognised income (loss) for the year	–	–	–	–	–	–	(1,581)	–	2,014,904	2,013,323	778,672	2,791,995
Dividends paid	–	–	–	–	–	–	–	–	(67,685)	(67,685)	–	(67,685)
Dividend paid to minority shareholders	–	–	–	–	–	–	–	–	–	–	(67,437)	(67,437)
Transfer	–	–	–	158,329	–	–	–	–	(158,329)	–	–	–
Share issue expenses	–	(62,611)	–	–	–	–	–	–	–	(62,611)	–	(62,611)
Arising on acquisition of additional interest in a subsidiary	190,654	12,188,481	–	–	–	–	–	(10,863,252)	–	1,515,883	(1,515,883)	–
Contribution from minority shareholders	–	–	–	–	–	–	–	–	–	–	455,053	455,053
Deregistration of a subsidiary	–	–	–	–	–	–	–	–	–	–	(10,491)	(10,491)
At 31st December, 2007	520,654	13,231,912	30,607	400,639	–	3,736	(1,581)	(10,863,252)	3,060,757	6,383,472	3,014,716	9,398,188

As stipulated by the relevant regulations of the People's Republic of China (the "PRC"), the aggregate allocations to the statutory surplus reserve is 10% of profit after taxation under the relevant accounting principles and financial regulations applicable to companies established in the PRC (the "PRC GAAP") for each of the companies comprising the Group.

For and up to 31st December, 2005, the aggregate allocations of the statutory welfare reserve was 5% of profit after taxation under the PRC GAAP for each of the companies comprising the Group. No such statutory allocation is required from 1st January, 2006.

Consolidated Statement of Changes In Equity

For the year ended 31st December, 2007

According to the provision of the 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.

The other reserve represents the difference between the consideration paid and the relevant share of the carrying value of a subsidiary's net assets acquired from the minority interest.

Consolidated Cash Flow Statement

For the year ended 31st December, 2007

	2007 RMB'000	2006 RMB'000
OPERATING ACTIVITIES		
Profit before taxation	**3,273,142**	889,109
Adjustments for:		
Share of results of associates	**3,169**	(32,094)
Finance costs	**253,120**	63,160
Interest income	**(26,530)**	(10,780)
Depreciation of properties, plant and equipment	**585,155**	193,662
Release of prepaid lease payments	**4,395**	1,278
Amortisation of intangible assets	**60,475**	62,223
Gain on disposal of property, plant and equipment	**(2,288)**	(879)
Reversal of impairment loss on trade receivables	**(38,749)**	(29,387)
Loss on disposal of disposal group held for sale	**101,446**	—
Impairment loss on trade receivables	**53,756**	—
Impairment loss on other receivables	**54,301**	—
Gain on disposal of available-for-sale financial assets	**(3,126)**	—
Depreciation of investment properties	**802**	—
Allowance for inventories	**72,510**	—
Operating cash flows before movements in working capital	**4,391,578**	1,136,292
Increase in inventories	**(1,435,818)**	(251,414)
Increase in trade and bills receivables	**(1,924,566)**	(205,840)
(Increase) decrease in deposits, prepayments and other receivables	**(175,634)**	30,206
Increase in trade and bills payables	**2,059,330**	654,064
Increase in other payables and accruals	**692,147**	176,763
Increase in warranty provision	**128,851**	28,606
Cash generated from operations	**3,735,888**	1,568,677
Income tax paid	**(566,927)**	(158,711)
Interest paid	**(215,017)**	(53,841)
NET CASH FROM OPERATING ACTIVITIES	**2,953,944**	1,356,125

Consolidated Cash Flow Statement

For the year ended 31st December, 2007

	Notes	2007 RMB'000	2006 RMB'000
INVESTING ACTIVITIES			
Purchases of property, plant and equipment and deposits paid for acquisition of property, plant and equipment		**(1,995,391)**	(624,023)
Increase in pledged bank deposits		**(396,456)**	(87,983)
Addition in prepaid lease payments		**(90,707)**	—
Investment in an associate		**(61,939)**	—
Purchase of available-for-sale financial assets		**(30,000)**	—
Purchases of investment property		**(1,368)**	—
Purchases of intangible assets		**(815)**	—
Proceeds from sales of disposal group held for sales	28	**92,863**	—
Proceeds from disposal of property, plant and equipment		**44,066**	1,299
Proceeds from disposal of available-for-sale financial assets		**42,215**	—
Interest received		**26,530**	10,780
Proceeds from disposal of intangible assets		**1,568**	—
Acquisition of a subsidiary (net of cash and cash equivalents acquired)	36	**—**	394,262
NET CASH USED IN INVESTING ACTIVITIES		**(2,369,434)**	(305,665)
FINANCING ACTIVITIES			
Repayments of bank borrowings and discounted bills with recourse		**(1,961,395)**	(395,200)
Repayments to a related party		**(68,445)**	(68,445)
Dividends paid		**(67,685)**	(120,450)
Expenses on issue of shares		**(62,611)**	—
Dividends paid to minority shareholders		**(35,672)**	—
Proceeds from debenture		**866,790**	—
New bank and other borrowings raised		**476,350**	498,029
Capital contributions from minority shareholders		**455,053**	—
NET CASH USED IN FINANCING ACTIVITIES		**(397,615)**	(86,066)

Consolidated Cash Flow Statement

For the year ended 31st December, 2007

	2007 RMB'000	2006 RMB'000
NET INCREASE IN CASH AND CASH EQUIVALENTS	**186,895**	964,394
CASH AND CASH EQUIVALENTS AT 1ST JANUARY	**1,674,390**	709,996
EFFECT OF FOREIGN EXCHANGE RATE CHANGES	**(1,581)**	—
CASH AND CASH EQUIVALENTS AT 31ST DECEMBER	**1,859,704**	1,674,390
ANALYSIS OF THE BALANCES OF CASH AND CASH EQUIVALENTS, BEING		
Bank balances and cash	**1,819,554**	1,625,913
Bank balances and cash, included in disposal group held for sale	**40,150**	48,477
	1,859,704	1,674,390

Notes to the Consolidated Financial Statements

For the year ended 31st December 2007

1. General

The Company was established as a joint stock company with limited liability in the PRC. The Company's "H" shares and "A" shares are listed on The Stock Exchange of Hong Kong Limited (the "Hong Kong Stock Exchange") and the Shenzhen Stock Exchange from 11th March, 2004 and 30th April, 2007 onwards, respectively. 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 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 (i) diesel engines and related parts, (ii) automobiles and other major automobile components and (iii) non-major automobile components. The principal activities of its associates and subsidiaries are set out in notes 23 and 42 respectively.

2. Re-statement of Comparative Financial Information

On 12th November, 2006, the Company entered into a conditional agreement with Torch Automobile Group Co., Ltd ("TAGC") whereby the Company agreed to issue an aggregate of 190,653,552 new "A" shares (the "Consideration Shares") to acquire 71.88% equity interest in TAGC that the Group did not already own (the "TAGC Acquisition") at an issue price of RMB20.47 per share (the "Issue Price"). The Issue Price represented a premium of approximately 4.87% over the closing price of the Company's "H" shares on the last dealing date prior to the Announcement Date. TAGC was previously a 28.12% owned associate of the Group.

The TAGC Acquisition was approved by shareholders of both the Company and TAGC at their respective general meetings held on 29th December, 2006 (the "Shareholders' Approval Date"). Its completion is subject to further approvals from the various PRC regulators as well as the consummation of TAGC's debt re-structuring.

Completion of the TAGC Acquisition took place on 23rd April, 2007 (the "Completion Date") and the Company issued the Consideration Shares on the same day.

On the Completion Date, (i) the shares of TAGC were cancelled; (ii) TAGC's assets were absorbed into and its liabilities assumed by the Company; and (iii) TAGC were deregistered and ceased to exist. In addition, the Company's "A" shares were listed on the Shenzhen Stock Exchange on 30th April, 2007 while its "H" shares continued to be listed on the Hong Kong Stock Exchange.

2. Re-statement of Comparative Financial Information (continued)

TAGC was accounted for as an associate using the equity method in the Company's consolidated financial statements for the year ended 31st December, 2006. However, upon further discussion with its advisors, the directors have recently conducted detailed analyses of the nature and extent of the Company's control over the financial and operating policies of TAGC since the Shareholders' Approval Date. Based on these analyses, the directors have concluded that the Company had de facto control over TAGC with effect from the Shareholders' Approval Date and that TAGC should have been accounted for as a subsidiary of the Company from that date onwards. Accordingly, the Company has re-stated its consolidated financial statements for the year ended 31st December, 2006 and in summary, as follows:

Financial position as of 31st December, 2006

	As previously reported RMB'000	Adjustment for TAGC as a subsidiary RMB'000	As re-stated RMB'000
Current assets	3,579,079	6,520,660	10,099,739
Interest in associates	1,067,731	(906,395)	161,336
Other non-current assets	2,481,957	4,112,481	6,594,438
Total assets	7,128,767	9,726,746	16,855,513
Current liabilities	(3,530,550)	(5,588,627)	(9,119,177)
Non-current liabilities	(545,960)	(831,012)	(1,376,972)
Total liabilities	(4,076,510)	(6,419,639)	(10,496,149)
	3,052,257	3,307,107	6,359,364
Total equity attributable to equity holders of the Company	(2,984,562)	—	(2,984,562)
Minority interests	(67,695)	(3,307,107)	(3,374,802)
	(3,052,257)	(3,307,107)	(6,359,364)

The effect of accounting for TAGC as a subsidiary from the Shareholders Approval Date onwards would have had negligible impact to the Group's consolidated income statement and cash flows statement for the year ended 31st December, 2006. Accordingly, re-statement of these financial statements is not considered necessary.

3. 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 standards, amendments and interpretations ("new HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"), which are effective for accounting periods beginning on 1st January, 2007. 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 applied the disclosure requirements under HKAS 1 (Amendment) and HKFRS 7 retrospectively. Certain information presented in prior year under the requirements of HKAS 32 has been removed and the relevant comparative information based on the requirements of HKAS 1 (Amendment) and HKFRS 7 has been presented for the first time in the current year.

The Group has not early applied the following new and revised standards or interpretations that have been issued but are not yet effective.

HKAS 1 (Revised)	Presentation of Financial Statements[1]
HKAS 23 (Revised)	Borrowing Costs[1]
HKAS 27 (Revised)	Consolidated and Separate Financial Statements[2]
HKFRS 2 (Amendment)	Vesting Conditions and Cancellations[1]
HKFRS 3 (Revised)	Business Combinations[2]
HKFRS 8	Operating Segments[1]
HK(IFRIC)-Int 11	HKFRS 2: Group and Treasury Share Transactions[3]
HK(IFRIC)-Int 12	Service Concession Arrangements[4]
HK(IFRIC)-Int 13	Customer Loyalty Programmes[5]
HK(IFRIC)-Int 14	HKAS 19 — The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction[4]

[1] Effective for annual periods beginning on or after 1st January, 2009
[2] Effective for annual periods beginning on or after 1st July, 2009
[3] Effective for annual periods beginning on or after 1st March, 2007
[4] Effective for annual periods beginning on or after 1st January, 2008
[5] Effective for annual periods beginning on or after 1st July, 2008

The adoption of HKFRS 3 (revised) may affect the accounting for business combination for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after 1st July, 2009. HKAS 27 (revised) will affect the accounting treatment for changes in a parent's ownership interest in a subsidiary that do not result in a loss of control, which will be accounted for as equity transactions. The directors of the Company anticipate that the application of the other new or revised standards and interpretations will have no material impact on the results and the financial position of the Group.

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 entities controlled by the Company (its subsidiaries). Control is achieved where the Company has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities.

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.

Business combinations

The acquisition of businesses other than involving entities under common control is accounted for using the purchase method. The cost of the acquisition is measured at the aggregate of the fair values, at the date of exchange, of assets given, liabilities incurred or assumed, and equity instruments issued by the Group in exchange for control of the acquiree, plus any costs directly attributable to the business combination. The acquiree's identifiable assets, liabilities and contingent liabilities that meet the conditions for recognition under *HKFRS 3 Business Combinations* are recognised at their fair values at the acquisition date, except for non-current assets (or disposal groups) that are classified as held for sale in accordance with *HKFRS 5 Non-Current Assets Held for Sale and Discontinued Operations*, which are recognised and measured at fair value less costs to sell.

Goodwill arising on acquisition is recognised as an asset and initially measured at cost, being 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 recognised. If, after reassessment, the Group's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities exceeds the cost of the business combination, the excess is recognised immediately in profit or loss.

4. Significant Accounting Policies (continued)

Business combinations (continued)

The interest of minority shareholders in the acquiree is initially measured at the minority's proportion of the net fair value of the assets, liabilities and contingent liabilities recognised.

For business combination involves more than one exchange transaction through successive share purchases. Each exchange transaction are treated separately, using the cost of the transaction and fair value information at the date of each exchange transaction, to determine the amount of any goodwill associated with that transaction. Any adjustments to those fair values relating to previously held interests is accounted for as increase in revaluation reserve.

Changes in equity interest in a subsidiary

The Group applies a policy of treating transactions with minority interest as transactions with equity owners of the Group. When additional equity interest in a subsidiary is acquired, any difference between the consideration paid and the relevant share of the carrying value of the subsidiary's net assets acquired is recorded in equity. When equity interest in a subsidiary is disposed to minority interest, any difference between the proceeds received and the relevant share of minority interest is also recorded in equity.

Goodwill

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

Capitalised goodwill arising on an acquisition of a business is presented separately in the consolidated balance sheet.

For the purposes of impairment testing, goodwill arising from an acquisition is allocated to each of the relevant cash-generating units, or groups of cash-generating units, that are expected to benefit from the synergies of the acquisition. A cash-generating unit to which goodwill has been allocated is tested for impairment annually, and whenever there is an indication that the unit may be impaired. For goodwill arising on an acquisition in a financial year, the cash-generating unit to which goodwill has been allocated is tested for impairment before the end of that financial year. When the recoverable amount of the cash-generating unit is less than the carrying amount of the unit, the impairment loss is allocated to reduce the carrying amount of any goodwill allocated to the unit first, and then to the other assets of the unit pro rata on the basis of the carrying amount of each asset in the unit. Any impairment loss for goodwill is recognised directly in the consolidated income statement. An impairment loss for goodwill is not reversed in subsequent periods.

On subsequent disposal of the relevant cash-generating unit, the attributable amount of goodwill capitalised is included in the determination of the amount of profit or loss on disposal.

4. Significant Accounting Policies (continued)

Interests in associates

An associate is an entity over which the investor has significant influence and that is neither a subsidiary nor an interest in a joint venture.

The results and assets and liabilities of associates are incorporated in these consolidated 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 net assets of the associates, 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.

Any excess of the cost of acquisition over the Group's share of the net fair value of the identifiable assets, liabilities and contingent liabilities of the associate recognised at the date of acquisition is recognised as goodwill. The goodwill is included within the carrying amount of the investment and is assessed for impairment as part of the investment.

Any excess of the Group's share of the net fair value of the identifiable assets, liabilities and contingent liabilities over the cost of acquisition, after reassessment, is recognised immediately in profit or loss.

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.

Non-current assets held for sale

Non-current assets and disposal groups are classified as held for sale if their carrying amount will be recovered principally through a sale transaction rather than through continuing use. This condition is regarded as met only when the sale is highly probable and the asset (or disposal group) is available for immediate sale in its present condition.

Non-current assets (and disposal groups) classified as held for sale ("disposal groups") are measured at the lower of the assets' previous carrying amount and fair value less costs to sell.

Revenue recognition

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

Revenue from sale of goods is recognised when goods are delivered and title has passed.

Income from repairs are recognised upon completion of the repair work.

Service income is recognised when the services are provided.

4. Significant Accounting Policies (continued)

Revenue recognition (continued)

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.

Rental income, including rental invoiced in advance from properties let under operating leases, are recognised on a straight line basis over period of relevant lease.

Property, plant and equipment

Property, plant and equipment including buildings held for use in the production or supply of goods or services, or for administrative purposes, other than construction in progress, are stated at cost less subsequent accumulated depreciation and accumulated impairment losses.

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.

Construction in progress represents property, plant and equipment in the course of construction for production or for its own use purposes. Construction in progress is carried at cost less any recognised impairment loss. Construction in progress is classified to the appropriate category of property, plant and equipment when completed and ready for intended use. Depreciation of these assets, on the same basis as other property assets, commences when the 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 consolidated income statement in the year in which the item is derecognised.

Investment properties

Investment properties are properties held to earn rentals and/or for capital appreciation.

On initial recognition, investment properties are measured at cost, including any directly attributable expenditure. Subsequent to initial recognition, investment properties are stated at cost less subsequent accumulated depreciation and any accumulated impairment losses. Depreciation is charged so as to write off the cost of investment properties using the straight-line method.

An investment property is derecognised upon disposal or when the investment property is permanently withdrawn from use or no future economic benefits are expected from its disposals. 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 asset) is included in the consolidated income statement in the year in which the item is derecognised.

4. Significant Accounting Policies (continued)

Leasing

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

The Group as lessor

Rental income from operating leases is recognised in the consolidated income statement on a straight-line basis over the term of the relevant lease. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognised as an expense on a straight-line basis over the lease term.

The Group as lessee

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.

Leasehold land and building

The land and building elements of a lease of land and building are considered separately for the purpose of lease classification, unless the lease payments cannot be allocated reliably between the land and building elements, in which case, the entire lease is classified as finance lease and accounted for as property, plant and equipment. To the extent the allocation of the lease payments can be made reliably, leasehold interests in land are accounted for as operating lease.

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, are capitalised as part of the cost of those assets. Capitalisation of such borrowing costs ceases when the assets are substantially ready for their intended use or sale. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation.

All other borrowing costs are recognised in profit or loss in the year 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 the respective 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.

4. Significant Accounting Policies (continued)

Foreign currencies (continued)

For the purposes of presenting the consolidated financial statements, the assets and liabilities of the Group's foreign operations are translated into the presentation currency of the Group (i.e. Renminbi) at the rate of exchange prevailing at the balance sheet date, and their income and expenses are translated at the average exchange rates for the year, unless exchange rates fluctuate significantly during the period, in which case, the exchange rates prevailing at the dates of transactions are used. Exchange differences arising, if any, are recognised as a separate component of equity (the translation reserve). Such exchange differences are recognised in profit or loss in the period in which the foreign operation is disposed of.

Government grants

Government grants are recognised as income over the periods necessary to match them with the related costs. Grants related to expense items are recognised in the same period as those expenses are charged in the consolidated income statement and are reported separately as "other income".

Retirement benefit costs

Payments to the state-managed retirement benefit schemes, are charged as expenses when employees have rendered service entitling them to the contributions.

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 consolidated 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. Such assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries and associates, except where the Group 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.

4. Significant Accounting Policies (continued)

Taxation (continued)

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.

Intangible assets

Intangible assets acquired separately

Intangible assets acquired separately and 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 (see the accounting policy in respect of impairment losses on tangible and intangible assets below).

Gains 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 consolidated income statement when the asset is derecognised.

Research and development expenditure

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

The amount initially recognised for internally-generated intangible asset is the sum of the expenditure incurred from the date when the intangible asset first meets the recognition criteria. Where no internally generated intangible asset can be recognised, development expenditure is charged to profit or loss in the year in which it is incurred.

Subsequent to initial recognition, internally-generated intangible asset is reported at cost less accumulated amortisation and accumulated impairment losses, on the same basis as intangible assets acquired separately.

Intangible assets acquired in a business combination

Intangible assets acquired in a business combination are identified and recognised separately from goodwill where they satisfy the definition of an intangible asset and their fair values can be measured reliably. The cost of such intangible assets is their fair value at the acquisition date.

Subsequent to 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 (see the accounting policy in respect of impairment losses on tangible and intangible assets below).

4. Significant Accounting Policies (continued)

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is calculated using the weighted average method.

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 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.

Effective interest method

The effective interest method is a method of calculating the amortised cost of a financial asset and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees on points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial asset, or, where appropriate, a shorter period.

Income is recognised on an effective interest basis for debt instruments.

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, other receivables, pledged bank deposits and bank balances) are carried at amortised cost using the effective interest method, less any identified impairment losses. (see accounting policy on impairment loss on financial assets below).

4. Significant Accounting Policies (continued)

Financial instruments (continued)

Financial assets (continued)

Available-for-sale financial assets

Available-for-sale financial assets are non-derivatives that are either designated or not classified as financial assets at fair value through profit or loss, loans and receivables or held-to-maturity investments.

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. (see accounting policy on impairment loss on financial assets below).

Impairment of financial assets

Financial assets are assessed for indicators of impairment at each balance sheet date. Financial assets are impaired where there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the financial assets have been impacted.

For an available-for sale equity investment, a significant or prolonged decline in the fair value of that investment below its cost is considered to be objective evidence of impairment.

For all other financial assets, objective evidence of impairment could include:

- significant financial difficulty of the issuer or counterparty; or
- default or delinquency in interest or principal payments; or
- it becoming probable that the borrower will enter bankruptcy or financial re-organisation.

For certain categories of financial asset, such as trade and bills receivables and other receivables, assets that are assessed not to be impaired individually are subsequently assessed for impairment on a collective basis. Objective evidence of impairment for a portfolio of receivables could include the Group's past experience of collecting payments and changes in national or local economic conditions that correlate with default on receivables.

For financial assets carried at amortised cost, 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.

For financial assets carried at cost, the amount of the impairment loss is measured as the difference between the asset's carrying amount 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 loss will not be reversed in subsequent periods.

4. Significant Accounting Policies (continued)

Financial instruments (continued)

Financial assets (continued)

Impairment of financial assets (continued)

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of trade and bills receivables and other receivables, where the carrying amounts are reduced through the use of an allowance account. Changes in the carrying amount of the allowance account are recognised in profit or loss. When a trade and bills receivables and other receivables are considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited to profit or loss.

For financial assets measured at amortised cost, if, in a subsequent period, the amount of impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment losses was recognised, the previously recognised impairment loss is reversed through profit or loss to the extent 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.

Impairment losses on available-for-sale equity investments will not be reversed in profit or loss in subsequent periods. Any increase in fair value subsequent to impairment loss is recognised directly in equity. For available-for-sale debt investments, impairment losses are subsequently reversed if an increase in the fair value of the investment can be objectively related to an event occurring after the recognition of the impairment loss.

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 an entity after deducting all of its liabilities. The Group's financial liabilities are generally classified as other financial liabilities. The accounting policies adopted in respect of financial liabilities and equity instruments are set out below.

Effective interest method

The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments through the expected life of the financial liability, or, where appropriate, a shorter period.

Interest expense is recognised on an effective interest basis.

Financial liabilities

The Company's financial liabilities including trade and bills payables, other payables, amount due to a related party, debentures and bank and other borrowings are subsequently measured at amortised cost, using the effective interest method.

Equity instruments

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

4. Significant Accounting Policies (continued)

Financial instruments (continued)

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. If the Group retains substantially all the risks and rewards of ownership of a transferred asset. The Group continues to recognise the financial asset and recognise a collecteralised borrowing for proceeds received.

Financial liabilities are derecognised 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 and payable 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 losses on tangible and intangible assets other than goodwill, (see the accounting policies in respect of goodwill above)

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. In addition, intangible assets with indefinite useful lives are tested for impairment annually, and whenever there is an 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.

Where an impairment loss is subsequently reversed, 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. Critical Accounting Judgments and Key Sources of Estimation Uncertainty

In the application of the Group's accounting policies, which are described in note 4, the directors of the Company are required to make judgments, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

Critical Judgments in Applying the Entity's Accounting Policies

The following are the critical judgements, apart from those involving estimations (see below), that the directors have made in the process of applying the entity's accounting policies and that have the most significant effect on the amounts recognised in financial statements.

Intangible assets with indefinite useful lives

As detailed in note 21, trademarks with a carrying amounts of RMB203.1 million that are renewable every 10 years at minimal costs. The Directors of the Company considered that these trademarks for all practical purposes have an indefinite useful life and therefore they will not be amortised until their useful life is determined to be finite and they will be tested for impairment annually.

Key Sources of Estimation Uncertainty

The following are 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.

Estimated recoverable amounts of goodwill and intangible assets with indefinite useful lives

Determining whether goodwill and intangible assets with indefinite useful lives are impaired requires an estimation of the value in use of the cash generating units to which goodwill and intangible assets have been allocated. The value in use calculation requires the Group to estimate the future cash flows expected to arise from the cash-generating unit and a suitable discount rate in order to calculate the present value. As at 31st December, 2007, the carrying amount of goodwill and intangible assets are approximately RMB538.0 million (2006: RMB599.6 million) and RMB253.5 million (2006: RMB314.7 million), respectively. Details of the recoverable amount calculation are disclosed in note 22.

5. Critical Accounting Judgments and Key Sources of Estimation Uncertainty (continued)

Key Sources of Estimation Uncertainty (continued)

Estimated impairment of trade receivables

When there is objective evidence of impairment loss, the Group takes into consideration the estimation of future cash flows. The amount of the impairment loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate (i.e. the effective interest rate computed at initial recognition). Where the actual future cash flows are less than expected, a material impairment loss may arise. As at 31st December, 2007, the carrying amounts of trade receivables were RMB1,729.3 million (2006: RMB1,578.6 million) (net of allowance for doubtful debts of RMB211.3 million (2006: RMB203.6 million)).

Allowances for inventories

The management of the Group reviews its inventories at each balance sheet date, and makes allowance for obsolete and slow-moving inventory items identified that are no longer suitable for use in production. The management estimates the net realisable value for such items based primarily on the latest invoice prices and current market conditions. The Group carries out an inventory review on a product-by-product basis at each balance sheet date and makes allowance for obsolete items.

Warranty expenses

The Group offers a six months to three years 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 accrued with reference to historical cost data for repairs and maintenance, and units of products sold.

Income taxes

As at 31st December, 2007, a deferred tax asset of RMB189.8 million (2006: nil) in relation to allowance for doubtful debts, inventories, sale rebates, warranty provision and other accrual was recognised in the Group's balance sheet. The realisability of the deferred tax asset mainly depends on whether sufficient future profits or taxable temporary differences will be available in the future. In cases where the actual future profits generated are less than expected, a material reversal of deferred tax assets may arise, which will be recognised in the consolidated income statement for the period in which such a reversal takes place.

6. Capital Risk Management

The Group manages its capital to ensure that entities in the Group will be able to continue as a going concern while maximising the return to shareholders through the optimisation of the debt and equity balance. The Group's overall strategy remains unchanged from prior year.

The capital structure of the Group consists of debt, which includes the debentures and borrowings disclosed in notes 31 and 32, respectively, and equity attributable to equity holders of the Company, comprising issued share capital and various reserves.

6. Capital Risk Management (continued)

The directors of the Company review the capital structure regularly. As part of this review, the directors of the Company assess the annual budget prepared by the accounting and treasury department and consider and evaluate the cost of each class of capital and the risks associated thereto. Based on recommendations of the directors, the Group will balance its overall capital structure through the payment of dividends, issue of new shares and new debts or the redemption of existing debts.

In addition, the Group also has a target gearing ratio of less than 10% determined as the proportion of net debt to equity.

The gearing ratio at the balance sheet date was as follows:

	2007 **RMB'000**	2006 RMB'000
Debt (notes i & ii)	**2,754,212**	3,295,937
Cash and cash equivalents (note ii)	**1,859,704**	1,674,390
Net debt	**894,508**	1,621,547
Equity (note iii)	**9,398,188**	6,359,364
Net debt to equity ratio	**9.5%**	25.5%

Notes:

(i) Debt is defined as debentures and bank and other borrowings, as detailed in notes 31 and 32.

(ii) This include the relevant items under "disposal group held for sale" in note 28.

(iii) Equity includes all capital and reserves of the Group attributable to equity holders of the Company and minority interests.

The Group intends to reduce its gearing ratio by capitalisation through the issue of new shares.

7. Financial Instruments

7a. Categories of financial instruments

	2007 **RMB'000**	2006 RMB'000
Financial assets		
Loans and receivables (including cash and cash equivalents)	**8,703,933**	6,171,315
Available-for-sale financial assets	**75,358**	84,447
Financial liabilities		
Amortised cost	**111,455,159**	9,472,623

7. Financial Instruments (continued)

7b. Financial risk management objectives and policies

The Group's major financial instruments include trade and bills receivables, other receivables, pledged bank deposits, bank balances and cash, trade and bills payables, other payables, debentures, borrowings 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.

Credit risk

Credit risk refers to the risk that counterparty will default on its contractual obligations resulting in financial loss to the Group.

At 31st December, 2007, the Group's maximum exposure to credit risk which will cause a financial loss to the Group is the carrying amount of the various receivables as stated in the consolidated balance sheet.

In order to minimise the credit risk, the management of the Group has delegated various teams responsible for determination of credit limits, credit approvals and other monitoring procedures to ensure that follow-up actions are taken to recover overdue debts. In addition, the Group reviews the recoverable amount of each individual 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, the Group's credit risk is concentrated on certain major customers. At 31st December, 2007, the five largest receivable balances accounted for approximately 21% of the Group's total trade receivable balances. However, taking into account the strong financial background and good creditability of these customers, the management considers that there is no significant uncovered credit risk.

7. Financial Instruments (continued)

7b. Financial risk management objectives and policies (continued)

Credit risk (continued)

The table below shows the credit limit and balance of 5 major counterparties at the balance sheet date:

		31.12.2007		31.12.2006	
Counterparty	Location	Credit limit RMB'000	Carrying amount RMB'000	Credit limit RMB'000	Carrying amount RMB'000
Company A	The PRC	155,000	110,470	155,000	82,124
Company B	The PRC	110,000	102,338	140,000	133,890
Company C	The PRC	75,000	60,359	75,000	45,606
Company D	The PRC	50,000	45,925	50,000	26,439
Company E	The PRC	50,000	40,135	50,000	19,311

The credit risk on liquid funds is limited because the counterparties are banks in the PRC with high credit rating.

The Group's geographical concentration of credit risk is mainly in the PRC, which accounted for over 90% of the Group's total trade receivable as at 31st December, 2006 and 2007.

7. Financial Instruments (continued)

7b. Financial risk management objectives and policies (continued)

Market risk

(i) Currency risk

The Group has external borrowings denominated in foreign currency which expose the Group to foreign currency risk.

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.

Sensitivity analysis

The Group is mainly exposed to the currency of United States Dollar ("USD").

The following table details the Group's sensitivity to a 10% increase and decrease in RMB against USD. 10% is the sensitivity rate used when reporting foreign currency risk internally to key management personnel and represents management's assessment of the reasonably possible change in foreign exchange rates. The sensitivity analysis includes only outstanding USD bank borrowings and adjusts their translation at the year end for a 10% change in RMB: USD exchange rate.

	2007 **RMB'000**	2006 RMB'000
Impact to profit and loss (note)	**6,209**	6,637

Note: This represents the Group's exposure to its USD bank borrowings outstanding at the balance sheet date.

In management's opinion, the sensitivity analysis may not be representative of the inherent foreign exchange risk as the exposure at the end of the year does not reflect the exposure during the year.

7. Financial Instruments (continued)

7b. Financial risk management objectives and policies (continued)

Market risk (continued)

(ii) Interest rate risk

The Group is exposed to fair value interest rate risk in relation to its fixed-rate borrowings (see notes 31 and 32 for details of these borrowings).

The Group is also exposed to cash flow interest rate risk in relation to its variable-rate borrowings (see note 32 for details of these borrowings).

The Group currently does not have any interest rate hedging policy.

The Group's exposures to interest rates on financial assets and financial liabilities are detailed in the liquidity risk management section of this note. The Group's cash flow interest rate risk is mainly sensitive to the fluctuation of rate of the People's Bank of China arising from the Group's RMB borrowings and LIBOR arising from the Group's USD borrowings.

Sensitivity analysis

The sensitivity analyses below have been determined based on the exposure to interest rates for non-derivative instruments at the balance sheet date. For variable-rate bank borrowings, the analysis is prepared assuming the amount of liability outstanding at the balance sheet date was outstanding for the whole year. A 150 basis point increase or decrease is used when reporting interest rate risk internally to key management personnel and represents management's assessment of the reasonably possible change in interest rates.

If interest rates had been 150 basis points higher/lower and all other variables were held constant, the Group's profit for the year ended 31st December, 2007 would result in net changes by RMB2,272,000 (2006: net changes by RMB1,029,000). This is mainly attributable to the Group's exposure to interest rates on its variable-rate bank borrowings.

The Group's sensitivity to interest rates has decreased during the current year mainly due to a decrease in variable rate debt instruments.

In addition to the above risks relating to financial instruments, 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 arrangement to hedge the price risk exposure of its raw material purchases.

7. Financial Instruments (continued)

7b. Financial risk management objectives and policies (continued)

Liquidity risk

In the management of the liquidity risk, the Group monitors and maintains a level of cash and cash equivalents deemed adequate by the management to finance the Group's operations and mitigate the effects of fluctuations in cash flows. The management monitors the utilisation of bank borrowings and ensures compliance with loan covenants.

The Group relies on bank borrowings as a significant source of liquidity. As at 31st December, 2007, the Group had available unutilised short-term bank loan facilities of approximately RMB4,157.0 million (2006: RMB6,671.3 million).

The following table details the Group's remaining contractual maturity for its non-derivative financial liabilities. The table has been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the Group can be required to pay. The table includes both interest and principal cash flows.

Liquidity and interest risk tables

	Weighted average effective interest rate %	Less than 3 months RMB'000	3-6 months RMB'000	6 months to 1 year RMB'000	1-5 years RMB'000	5+ years RMB'000	Interest adjustment RMB'000	Carrying amount at 31.12.2007 RMB'000
2007								
Non-derivative financial liabilities								
Trade and bills payables	—	6,181,631	876,400	206,742	—	—	—	7,264,773
Other payables	—	530,205	921,892	70,741	—	—	—	1,522,838
Amount due to a related party	5.00	—	—	68,446	—	—	(2,789)	65,657
Bank borrowings								
— fixed rate	6.33	71,233	496,828	992,878	59,098	—	(96,392)	1,523,645
— variable rate	6.28	77,137	—	—	106,830	5,467	(11,188)	178,246
Debentures	3.80	902,777	—	—	—	—	(2,777)	900,000
		7,762,983	2,295,120	1,338,807	165,928	5,467	(113,146)	11,455,159
2006								
Non-derivative financial liabilities								
Trade and bills payables	—	4,322,885	776,908	115,665	—	—	—	5,215,458
Other payables	—	365,391	437,051	140,048	—	—	—	942,490
Amount due to a related party	5.00	—	—	71,555	63,336	—	(7,152)	127,739
Bank and other borrowings								
— fixed rate	5.89	87,995	626,865	1,209,020	1,321,149	—	(138,826)	3,106,203
— variable rate	6.50	—	—	83,356	—	—	(2,623)	80,733
		4,776,271	1,840,824	1,619,644	1,384,485	—	(148,601)	9,472,623

7. FINANCIAL INSTRUMENTS (continued)

7c. Fair values

The fair value of financial assets and financial liabilities are determined in accordance with generally accepted pricing models based on discounted cash flow analysis.

The directors consider that the carrying amounts of financial assets and financial liabilities recorded at amortised cost in the consolidated financial statements approximate their fair values.

8. Business and Geographical Segments

A. Business segments

For management purposes, the Group is currently organised into the following major divisions: (i) manufacturing and sales of diesel engines and related parts ("Diesel engines"), (ii) manufacturing and sale of automobiles and major automobile components other than diesel engines ("Automobiles and other major automobile components"), (iii) manufacturing and sale of non-major automobile components ("Non-major automobile components") and (iv) provision of import and export services ("Import & export services"). These operating divisions are the basis on which the Group reports its primary segment as below:

For the year ended 31st December, 2007

	Diesel engines RMB'000	Automobiles and other major automobile components RMB'000	Non-major automobile components RMB'000	Import & export services RMB'000	Elimination RMB'000	Consolidated RMB'000
REVENUE						
External sales	8,506,109	16,829,973	841,335	1,247,543	—	27,424,960
Inter-segment sales*	2,541,135	—	61,001	—	(2,602,136)	—
	11,047,244	16,829,973	902,336	1,247,543	(2,602,136)	27,424,960
RESULTS						
Segment results	1,906,713	1,593,359	30,735	27,469	—	3,558,276
Unallocated corporate expenses						(95,194)
Other income						167,795
Loss on disposal of disposal group held for sale						(101,446)
Share of results of associates						(3,169)
Finance costs						(253,120)
Profit before taxation						3,273,142
Income tax expense						(479,566)
Profit for the year						2,793,576

8. Business And Geographical Segments (continued)

A. Business segments (continued)

For the year ended 31st December, 2007 (continued)

Balance Sheet

	Diesel engines RMB'000	Automobiles and other major automobile components RMB'000	Non-major automobile components RMB'000	Import & export services RMB'000	Consolidated RMB'000
ASSETS					
Segment assets	6,915,762	10,869,793	838,771	20,996	18,645,322
Interests in associates	65,258	132,678	142	22,028	220,106
Unallocated corporate assets					3,390,217
Total assets					22,255,645
LIABILITIES					
Segment liabilities	4,601,089	4,632,025	308,842	4,975	9,546,931
Unallocated corporate liabilities					3,310,526
Total liabilities					12,857,457

Other Information

	Diesel engines RMB'000	Automobiles and other major automobile components RMB'000	Non-major automobile components RMB'000	Import & export services RMB'000	Consolidated RMB'000
Capital addition	655,791	647,285	88,734	3,817	1,395,627
Depreciation and amortisation	262,444	330,032	52,793	361	645,630
Gain on disposal of property, plant and equipment	944	1,073	267	4	2,288
Allowance of inventories	3,304	62,846	6,360	—	72,510
Impairment loss on trade receivables	1,761	46,048	5,944	3	53,756
Impairment loss on other receivables	32,935	21,366	—	—	54,301

* Inter-segment sales were charged with reference to the prevailing market price.

8. Business And Geographical Segments (continued)

A. Business segments (continued)

For the year ended 31st December, 2006

For the year ended 31st December, 2006, the Group was principally engaged in the business of manufacture and sales of diesel engines and related parts and accordingly, no analysis of business segment for the segment revenue, segment results and details of other information are presented.

The following is an analysis of the assets and liabilities by business segment:

	Diesel engines RMB'000	Automobiles and other major automobile components RMB'000	Non-major automobile components RMB'000	Import & export services RMB'000	Consolidated RMB'000
BALANCE SHEET					
ASSETS					
Segment assets	5,219,925	7,904,866	810,446	14,535	13,949,772
Interests in associates	—	135,855	285	25,196	161,336
Unallocated corporate assets					2,744,405
Total assets					16,855,513
LIABILITIES					
Segment liabilities	3,220,068	3,226,212	245,860	4,206	6,696,346
Unallocated corporate liabilities					3,799,803
Total liabilities					10,496,149

B. Geographical segments

For each of the two years ended 31st December, 2007, substantially all of the Group's turnover and operating results were derived from the PRC. In addition, less than 10% of the assets of the Group are located outside the PRC. Accordingly, no analysis of geographical segment is presented.

9. Other Income

	2007 RMB'000	2006 RMB'000
Other income includes:		
Government subsidies (note i)	63,803	—
Gain on sale of scrap and other materials	59,585	11,832
Sales and warranty period repair services fee income	11,543	16,330
Bank interest income	26,530	10,780
Warehouse uploading and logistic services fee income	8,358	8,524
Write back of bad debt provision	38,749	29,387
Gain on disposal of property, plant and equipment	2,288	879
Compensation from China Heavy Duty Track Group Co. Ltd. ("CHDTGL") (note ii)	—	13,540
Gain on disposal of available-for-sale financial assets	3,126	—
Others	29,159	8,057
	243,141	99,329

Notes:

(i) The subsidy income was principally refund of value added tax ("VAT") based on the VAT tax payments made by the Group during the year. The timing and amount of the subsidy was entirely at the discretion of the relevant PRC government authorities.

(ii) On 23rd December, 2006, the Company entered into a settlement agreement with CHDTGL whereby CHDTGL would refund the deposit paid pursuant 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, and also pay a compensation of RMB13,540,000 to the Company for the termination of the framework agreement. Details of relationship with CHDTGL are set out in note 40(a)(xii).

10. Finance Costs

	2007 RMB'000	2006 RMB'000
Interest on:		
Bank borrowings wholly repayable within five years	215,017	53,841
Debentures	33,210	—
Imputed interest expense on an amount due to a related party	6,363	9,319
Recognition of default interest	3,957	—
	258,547	63,160
Less: amounts capitalised in property, plant and equipment	(5,427)	—
	253,120	63,160

Borrowing costs capitalised during the year were attributable to the specific borrowings for the construction in progress.

11. Profit Before Taxation

	2007 RMB'000	2006 RMB'000
Profit before taxation has been arrived at after charging:		
Directors' and Supervisors' emoluments (note 13)	**5,228**	3,606
Staff costs excluding Directors' and Supervisors' emoluments	**1,256,702**	328,954
Retirement benefits scheme contributions excluding amounts included in Directors' and Supervisors' emoluments	**82,483**	29,816
Total staff costs	**1,344,413**	362,376
Depreciation of property, plant and equipment	**585,155**	193,662
Depreciation of investment property	**802**	—
Release of prepaid lease payments (included in administrative expenses)	**4,395**	1,278
Amortisation of intangible assets (included in administrative expenses)	**60,475**	62,223
Auditors' remuneration	**14,800**	5,000
Impairment loss on trade receivables	**53,756**	—
Impairment loss on other receivables	**54,301**	—
Cost of inventories recognised as expense	**20,719,976**	4,742,383
Allowance for inventories	**72,510**	—
Share of taxation of associates (included in share of profits of associates)	**449**	27,383

Included in the total staff costs is an amount of approximately RMB78,000,000 (2006: RMB36,000,000) relating to bonus accrued for the Group's senior management including directors and supervisors. However, the amounts allocated to each individual for the year ended 31st December, 2007 have not been determined.

12. Income Tax Expense

	2007 RMB'000	2006 RMB'000
PRC Enterprise Income Tax:		
Current year	**665,641**	170,586
Underprovision in prior years	**—**	246
Overseas tax	**6,464**	—
	672,105	170,832
Deferred taxation (note 34)	**(192,539)**	10,267
	479,566	181,099

12. Income Tax Expense (continued)

PRC Enterprise Income Tax is calculated at the statutory income tax rate of 33% (2006: 33%) of the assessable profit of the Group companies, except the following:

(i) the assessable profit of the Company derived from its production and sales in the high technology development zone is taxed at a preferential rate of 15% (2006: 15%) pursuant to the following governmental notices:

(a) 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

(b) 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》）.

(ii) According to 《山東省人民政府國有資產監督管理委員會》(魯國資分配函(2007)45號), the Company has received an approval for 工效掛鈎方案 in respect of its eligible deduction on salaries.

(iii) 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% (2006: 15%).

(iv) Pursuant to 《國家科委(92)國家發火字858號》 and 《湖南省科學技術廳簽發的高新技術企業認定證書》, the Company's Zhuzhou branch is approved as an enterprise that satisfied the condition of being in high technology development and is subject to a preferential tax rate of 15%.

(v) Pursuant to 《國家稅務總局關於落實西部大開發有關稅收政策具體實施意見的通知》, certain subsidiaries which are approved as 《西部地區國家鼓勵產業的內資企業》 are also subject to a preferential tax rate of 15%.

(vi) The Company's Hong Kong branch is subject to Hong Kong Profits Tax at 17.5% (2006: 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.

(vii) Taxation in other jurisdictions is calculated at the rates prevailing in the relevant jurisdiction.

On 16th March, 2007, the President of the PRC promulgated Order No. 63 — Law of the PRC on Enterprise Income Tax (the "New Law"). On 6th December, 2007, the State Council of the PRC issued Implementation Regulations of the New Law. The New Law and the Implementation Regulations will change the tax rate from 33% to 25% for certain subsidiaries from 1st January, 2008 onwards. The preferential treatment (iii) and (v) above will continue on the implementation of the New Law, while the Group is not yet in a position to determine whether it will continue to be entitled to the preferential tax treatment (i) and (iv) above.

12. Income Tax Expense (continued)

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

	2007 RMB'000	2006 RMB'000
Profit before taxation	**3,273,142**	889,109
Tax at PRC Enterprise Income Tax rate of 33% (2006: 33%)	**1,080,137**	293,406
Tax effect of share of results of associates	**1,046**	(10,591)
Tax effect of expenses not deductible for tax purposes	**104,387**	51,727
Tax effect of income not taxable for tax purposes	**(29,271)**	—
Effect of tax concession granted to the Company	**(670,797)**	(153,689)
Effect of different tax rate	**(336)**	—
Effect of change in tax rate	**(5,600)**	—
Underprovision in prior years	**—**	246
	479,566	181,099

13. Directors' and Supervisors' Emoluments

The remuneration paid or payable to each of the 18 (2006: 16) Directors and 4 (2006: 3) Supervisors were as follows:

2007

	Tan Xuguang RMB'000	Xu Xinyu RMB'000	Sun Shaojun RMB'000	Zhang Quan RMB'000	Zhang Fusheng RMB'000	Liu Huisheng RMB'000	Yeung Sai Hong RMB'000	Chen Xuejian RMB'000	Yao Yu RMB'000	Li San Yim RMB'000	Julius G. Kiss RMB'000	Han Xiaoqun RMB'000	Zhang Xiaoyu RMB'000	Koo Fook Sun Louis RMB'000	Fang Zhongchang RMB'000	Gu Linsheng RMB'000	Li Shihao RMB'000	Liu Zheng RMB'000	Ding Yingdong RMB'000	Sun Chengping RMB'000	Wang Yong RMB'000	Jiang Jianfang RMB'000	Total RMB'000
Fees	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–
Other emoluments																							
Salaries, bonus and other benefits	1,106	956	956	956	60	60	60	60	60	60	60	60	120	162	120	76	76	76	–	60	–	60	5,204
Retirement benefits scheme contribution	6	6	6	6	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	24
Total emoluments	1,112	962	962	962	60	60	60	60	60	60	60	60	120	162	120	76	76	76	–	60	–	60	5,228

2006

	Tan Xuguang RMB'000	Xu Xinyu RMB'000	Sun Shaojun RMB'000	Zhang Quan RMB'000	Yeung Sai Hong RMB'000	Chen Xuejian RMB'000	Yao Yu RMB'000	Li San Yim RMB'000	Liu Huisheng RMB'000	Zhang Fusheng RMB'000	Julius G. Kiss RMB'000	Han Xiaoqun RMB'000	Tong Jingen RMB'000	Koo Zhang Xiaoyu RMB'000	Koo Fook Sun, Louis RMB'000	Fang Zhongchang RMB'000	Sun Chengping RMB'000	Wang Yong RMB'000	Jiang Jianfang RMB'000	Total RMB'000
Fees	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–
Other emoluments																				
Salaries, bonus and other benefits	608	578	578	578	50	50	50	50	50	50	50	50	25	100	138	100	50	386	50	3,591
Retirement benefits scheme contribution	3	3	3	3	–	–	–	–	–	–	–	–	–	–	–	–	–	3	–	15
Total emoluments	611	581	581	581	50	50	50	50	50	50	50	50	25	100	138	100	50	389	50	3,606

Note: The performance related incentive payment is determined as a percentage of the Group's profit for each of the two years ended 31st December, 2007.

14. Employees' Emoluments

Of the five individuals with the highest emoluments in the Group, four (2006: four) were Executive Directors of the Company whose emoluments are included in the disclosures in note 13 above. The emoluments of the remaining one (2006: one) individual was as follows:

	2007 RMB'000	2006 RMB'000
Salaries, bonus and allowances	1,987	1,900
Retirement benefits scheme contributions	12	12
	1,999	1,912

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 2006 or 2007.

15. Dividends

	2007 RMB'000	2006 RMB'000
Final, paid — RMB0.165 (2006: RMB0.65 in respect of 2005) per share in respect of 2006	67,685	54,450
Interim, paid — 2007: Nil (2006: RMB0.20) per share	—	66,000
	67,685	120,450

The directors recommend the payment of a final dividend of RMB0.44 per share for the year ended 31st December, 2007.

16. 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 RMB2,014,904,000 (2006: RMB702,695,000) and on 462,152,000 (2006: 330,000,000) weighted average number of ordinary shares in issue during the year.

No diluted earnings per share are presented as there was no potential ordinary share in issue during both years.

17. Property, Plant and Equipment

	Construction in progress RMB'000	Buildings RMB'000	Leasehold improvements RMB'000	Plant and machinery RMB'000	Computer, equipment and fixtures RMB'000	Motor vehicles RMB'000	Other equipment RMB'000	Total RMB'000
COST								
At 1st January, 2006	308,233	351,874	—	1,010,176	68,531	72,863	—	1,811,677
Additions	520,909	—	—	3,161	2,708	640	—	527,418
Transfer	(191,285)	36,985	—	130,037	9,594	14,669	—	—
Disposals	—	—	—	(66)	(392)	(2,350)	—	(2,808)
TAGC Acquisition	432,937	793,733	17,713	1,747,485	40,567	70,398	13,450	3,116,283
At 31st December, 2006	1,070,794	1,182,592	17,713	2,890,793	121,008	156,220	13,450	5,452,570
Additions	837,111	72,490	2,289	440,688	21,743	19,712	779	1,394,812
Transfer	(1,458,553)	473,097	—	949,988	22,731	12,118	619	—
Disposals	—	(9,738)	—	(53,425)	(9,621)	(11,275)	(6,996)	(91,055)
At 31st December, 2007	449,352	1,718,441	20,002	4,228,044	155,861	176,775	7,852	6,756,327
DEPRECIATION								
At 1st January, 2006	—	20,866	—	146,498	17,772	17,701	—	202,837
Charged for the year	—	19,976	—	145,737	16,508	11,441	—	193,662
Eliminated on disposals	—	—	—	(36)	(278)	(2,074)	—	(2,388)
At 31st December, 2006	—	40,842	—	292,199	34,002	27,068	—	394,111
Charged for the year	—	51,812	2,456	469,453	28,458	32,153	823	585,155
Eliminated on disposals	—	(2,553)	—	(32,658)	(6,732)	(6,552)	(782)	(49,277)
At 31st December, 2007	—	90,101	2,456	728,994	55,728	52,669	41	929,989
CARRYING AMOUNT								
At 31st December, 2007	449,352	1,628,340	17,546	3,499,050	100,133	124,106	7,811	5,826,338
At 31st December, 2006	1,070,794	1,141,750	17,713	2,598,594	87,006	129,152	13,450	5,058,459

The above items of property, plant and equipment, other than construction in progress, are depreciated 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	Over the shorter of 20 to 35 years or the term of the relevant land use rights
Leasehold improvements	Over the shorter of 10 to 20 years or the term of the relevant lease
Plant and machinery	5 to 10 years
Computer, equipment and fixtures	5 to 20 years
Motor vehicles	3 to 6 years
Other equipment	20 years

All buildings are erected on land held under medium-term land use rights in the PRC.

18. Prepaid Lease Payments

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

	2007 RMB'000	2006 RMB'000
Analysed for reporting purposes as:		
Current	**3,754**	1,278
Non-current	**268,767**	184,931
	272,521	186,209

19. Investment Properties

	RMB'000
COST	
At 1st January, 2006	—
TAGC Acquisition and at 31st December, 2006	31,767
Additions	1,368
At 31st December, 2007	33,135
DEPRECIATION	
At 1st January, 2006 and 31st December, 2006	—
Provided for the year	802
At 31st December, 2007	802
CARRYING VALUE	
At 31st December, 2007	32,333
At 31st December, 2006	31,767

The Group's investment properties are held under medium term land use rights in the PRC and are held for rental income under operating leases.

The above investment properties are depreciated on a straight-line basis over the shorter of the term for the lease or 5% per annum.

The fair value of the Group's investment property at 31st December, 2007 was RMB32,333,000 (2006: RMB31,767,000). The fair value has been arrived at based on a valuation carried out by Messrs Vigers Appraisal & Consulting Limited, independent valuers not connected with the Group. The valuation was determined by reference to recent market prices for similar properties.

20. Goodwill

	2007 RMB'000	2006 RMB'000
Cost		
At 1st January	**599,552**	—
Arising on acquisition of a subsidiary (note 23)	**—**	599,552
Eliminated on disposal of a subsidiary	**(61,536)**	—
At 31st December	**538,016**	599,552

The carrying amount of goodwill at 31st December, 2006 and 2007 as determined in note 23 was related to the following cash generating units:

	2007 RMB'000	2006 RMB'000
Automobile and other major automobile components	**538,016**	538,016
Import and export services	**—**	61,536
	538,016	599,552

Particulars regarding impairment testing on goodwill are detailed in note 22.

21. Intangible Assets

	Trademarks RMB'000 (Note i)	**Technologies** RMB'000 (Note ii)	**Total** RMB'000
COST			
At 1st January, 2006	119,264	222,965	342,229
TAGC Acquisition	94,197	80,517	174,714
At 31st December, 2006	213,461	303,482	516,943
Additions	—	815	815
Disposals	—	(1,568)	(1,568)
At 31st December, 2007	213,461	302,729	516,190
AMORTISATION			
At 1st January, 2006	10,372	129,631	140,003
Charge for the year	—	62,223	62,223
At 31st December, 2006	10,372	191,854	202,226
Charge for the year	—	60,475	60,475
At 31st December, 2007	10,372	252,329	262,701
CARRYING VALUE			
At 31st December, 2007	203,089	50,400	253,489
At 31st December, 2006	203,089	111,628	314,717

21. Intangible Assets (continued)

Notes:

(i) The trademarks are renewable every 10 years at minimal cost. The Directors of the Company are of the opinion that the Group has both the intention and ability to renew the trademarks continuously. As a result, the useful life of the trademarks is considered by the management of the Group as indefinite because the trademarks are expected to contribute to the Group's net cash inflows indefinitely. The trademarks will not be amortised until their useful life is determined to be finite. Instead the trademarks will be tested for impairment annually and whenever there is an indication that they may be impaired. Particulars of the impairment testing are disclosed in note 22.

(ii) Technologies represented manufacturing know-how, which have definite useful lives. Such technologies are amortised on a straight-line basis over 8 to 10 years.

22. Impairment Testing on Goodwill and Trademarks with Indefinite Useful Lives

As explained in note 8, the Group uses business segments as its primary segment for reporting segment information. For the purpose of impairment testing, goodwill and trademarks with indefinite useful lives as set out in notes 20 and 21 respectively have been allocated to three individual cash generating units (CGUs), including manufacturing and sale of diesel engines and related parts ("CGU A"), automobile and other major automobile components other than diesel engines ("CGU B") and import and export services ("CGU C"). The carrying amounts of goodwill and trademarks (net of accumulated impairment losses) as at 31st December, 2007 allocated to these units are as follows:

	Goodwill		Trademarks	
	2007 RMB'000	2006 RMB'000	**2007 RMB'000**	2006 RMB'000
CGU A	**—**	—	**108,892**	108,892
CGU B	**538,016**	538,016	**94,197**	94,197
CGU C	**—**	61,536	**—**	—
	538,016	599,552	**203,089**	203,089

The basis of the recoverable amounts of the above CGUs and their major underlying assumptions are summarised below:

CGU A

The recoverable amount of this unit has been determined based on a value in use calculation. That calculation uses cash flow projections based on financial budgets approved by management covering a 5-year period, and discount rate of 12% (2006: 12%). Unit A's cash flows beyond the 5-year period are extrapolated using no growth rate for both year. This growth rate is based on the relevant industry growth forecasts and does not exceed the average long-term growth rate for the relevant industry. Other key assumptions for the value in use calculations relate to the estimation of cash inflows/outflows which include budgeted sales and gross margin, such estimation is based on the unit's past performance and management's expectations for the market development.

22. Impairment Testing on Goodwill and Trademarks with Indefinite Useful Lives (continued)

CGU B

The recoverable amount of this unit has been determined based on a value in use calculation. That calculation uses cash flow projections based on financial budgets approved by management covering a 5-year period, and discount rate of 12% (2006: 12%). Unit B's cash flows beyond the five-year period are extrapolated with no growth for both years. Other key assumptions for the value in use calculations relate to the estimation of cash inflows/outflows which include budgeted sales and gross margin, such estimation is based on the unit's past performance and management's expectations for the market development.

23. Interests in Associates

	2007 RMB'000	2006 RMB'000
Cost of investment in unlisted associates	**223,275**	161,336
Share of post-acquisition losses	**(3,169)**	—
	220,106	161,336

Note:

Included in the interests in associate at the Shareholders' Approval Date is goodwill of approximately RMB599,552,000 attributable to the acquisitions of interests in TAGC in prior years. The movement of goodwill is set out below.

	RMB'000
COST	
At 1st January, 2006	278,286
Arising on acquisition of remaining interest in Weichai Power (Weifang) Investment Co., Limited ("Weifang Investment") (note 36(a))	321,266
Transfer when TAGC became a subsidiary (note 20)	(599,552)
At 31st December, 2006 and 2007	—

23. Interests in Associates (continued)

At 31st December, 2007, the Group had interest in the following associates:

Name of entity	Place of establishment	Proportion of issued and fully paid registered capital held by the Company		Principal activities
		Directly	Indirectly	
Eaton Fast Gear (Xian) Co., Ltd (伊頓法士特(西安)有限公司)	The PRC	20%	25%	Manufacturing of heavy duty automobile gear and parts
Zhuzhou Auto Trading Market (株洲汽車交易市場)	The PRC	—	23%	Agency service of trading second hand motor vehicles
Shaanxi Eurostar Auto Co., Ltd (陝西歐舒特汽車股份有限公司)	The PRC	—	33%	Manufacturing and of automobile and related parts
Shandong Lianhe Goods Transportation Co., Ltd. (山東聯合物流有限公司)	The PRC	—	40%	Logistics related services
Shaanxi Tonghui Automobile Transportation Co., Ltd. (陝西通匯汽車物流有限公司)	The PRC	—	40%	Logistics related services
Far East Flagship (Beijing) International Technology Co., Ltd. (遠東旗艦(北京)國際科技有限公司)	The PRC	—	38%	System development and technical support
Torch Xian Security Science and Technology Co., Ltd (西安安防科技有限公司)	The PRC	40%	5%	Manufacturing and trading of security related products
Xian Cummics Engine Co., Ltd ("Xian Cummics") (西安康明斯發動機有限公司)	The PRC	—	25%	Manufacturing and trading of diesel engine and parts

Note: All the above companies are incorporated entities.

23. Interests in Associates (continued)

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

	2007 RMB'000	2006 RMB'000
As at 31st December		
Total assets	1,386,610	899,574
Total liabilities	(739,849)	(403,313)
Group's share of net assets of the associates	220,106	161,336
For the year ended 31st December		
Revenue	7,741,897	11,221,963
(Loss) profit for the year attributable to equity holders of the associates	(22,295)	191,791
Group's share of (loss) profit of associates for the year		
— TAGC	—	32,094
— Others	(3,169)	—
	(3,169)	32,094

24. Available-for-sale Financial Assets

Available-for-sale financial assets comprise:

	2007 RMB'000	2006 RMB'000
Unlisted securities:		
— equity securities	75,358	84,447

The above unlisted investments represent investments in unlisted equity securities issued by private entities established in the PRC. They are measured at cost less impairment at each balance sheet date because the range of reasonable fair value estimates is so significant that the directors of the Company are of the opinion that their fair values cannot be measured reliably.

25. Deposits Paid for Acquisition of Property, Plant and Equipment

At the balance sheet date, the amount represented deposits paid to certain vendors for the acquisition of property, plant and equipment. Details of the related capital commitments are set out in note 37.

26. Inventories

	2007 RMB'000	2006 RMB'000
Raw materials and consumables	**1,091,609**	848,349
Work-in-progress	**656,358**	478,511
Finished goods	**2,452,043**	1,512,620
	4,200,010	2,839,480

27. Trade and Bills Receivables

Trade and bills receivables

	2007 RMB'000	2006 RMB'000
Third party customers	**1,843,700**	1,737,225
Related party customers (note i)	**96,840**	45,037
Less: allowance for doubtful debts (note ii)	**(211,279)**	(203,632)
	1,729,261	1,578,630
Bills receivable (note iii)	**4,180,241**	2,423,246
	5,909,502	4,001,876
Trade and bills receivables — included in disposal group held for sale (note 28)	**195,196**	236,895
	6,104,698	4,238,771

Notes:

(i) The amount represents balances with the substantial shareholder of the Company and minority shareholders of subsidiaries with significant influence.

(ii) Included in the allowance for doubtful debts is an amount of RMB7,894,000 (2006: RMB1,173,000) attributable to related party customers.

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

27. Trade and Bills Receivables (continued)

The credit terms granted by the Group to its customers are normally in the range from 90 days to 180 days. However, customers with established trading records could be granted longer credit period. Before accepting a new customer, the Group assesses the potential customer's credit quality and defines its credit limits above. Credit sales are made to customers with an appropriate credit history. Credit limits granted to customers are reviewed regularly. There has not been significant change in credit quality of the debtors and the directors considered those debts past due but not impaired are still recoverable. The following is an aged analysis of trade and bills receivables, net of allowance for doubtful debts as at the balance sheet date:

	2007 RMB'000	2006 RMB'000
Within 90 days	4,172,994	3,497,155
Between 91 to 180 days	1,738,859	362,100
Between 181 to 365 days	39,136	106,308
Over 1 year but less than 2 years	95,894	205,530
Over 2 years but less than 3 years	39,519	60,889
Over 3 years but less than 4 years	17,041	2,033
Over 4 years but less than 5 years	1,255	4,756
	6,104,698	4,238,771

Included in the above balance are debtors with an aggregate carrying amount of RMB193 million (2006: RMB379 million) which were past due at the reporting date against which the Group has not provided for impairment loss. The Group does not hold any collateral over these balances. The average age of these receivables is 180 days (2006: 150 days).

Aging of trade receivables which are past due but not impaired

	2007 RMB'000	2006 RMB'000
Between 181 to 365 days	39,136	106,308
Over 1 year but less than 2 years	95,894	205,530
Over 2 years but less than 3 years	39,519	60,889
Over 3 years but less than 4 years	17,041	2,033
Over 4 years but less than 5 years	1,255	4,756
Total	192,845	379,516

The Group has provided fully for all receivables over 5 years because historical experience is such that receivables that are past due beyond 5 years are generally not recoverable. For amounts which were past due at the balance sheet date, the Group has not provided for those receivables as there has not been significant change in credit quality and the amounts are still considered recoverable.

27. Trade and Bills Receivables (continued)

Movement in the allowance for doubtful debts

	2007 RMB'000	2006 RMB'000
At 1st January	203,632	42,584
TAGC Acquisition	—	195,600
Impairment loss recognised	53,756	—
Amounts written off as uncollectible	(7,360)	(5,165)
Impairment losses reversed	(38,749)	(29,387)
At 31st December	211,279	203,632

Included in the allowance for doubtful debts is an allowance of RMB76 million (2006: 4 million) for individually impaired trade receivables, which are mainly due from state-controlled entities in the PRC, with an aggregate receivable balance of RMB1,215 million (2006: RMB106 million) that are considered irrecoverable by the management after consideration on the credit quality of those individual customers, the ongoing relationship with the Group and the aging of these receivables. The impairment recognised represents the difference between the carrying amount of these trade receivables and the present value of the amounts. The Group does not hold any collateral over these balances.

28. Disposal Group Held for Sale

Pursuant to the debt agreement entered into by TAGC on 18th April, 2006 with certain banks to restructure its bank borrowings and guarantees (the "Debt Restructuring Agreement"), TAGC was to dispose its 75% interest in MAT Automobile Inc. ("MAT") and nine other TAGC subsidiaries associated with the operation of MAT (collectively referred to as the "MAT Group"). Accordingly, MAT Group was accounted for as a disposal group held for sale. The disposal group is engaged in the import and export services.

The major classes of assets and liabilities classified as disposal group held for sale are as follows:

	2007 RMB'000	2006 RMB'000
Property, plant and equipment	172,314	213,767
Intangible assets	3,374	13,488
Deferred tax assets	22,998	27,801
Inventories	123,000	221,352
Trade and bills receivables	195,196	236,895
Deposits, prepayments and other receivables	17,864	78,324
Bank balances and cash	40,150	48,477
Trade and bills payables	(125,821)	(171,753)
Other payables and accruals	(9,032)	(77,815)
Borrowings	(152,321)	(109,001)
Minority interests	(9,260)	(37,469)
Disposal group held for sale	278,462	444,066

28. Disposal Group Held for Sale

During the year ended 31st December, 2007, the Group disposed part of the MAT Group to a related party for RMB101,190,000, details of which are set out in note 40(a)(xiv). The net assets disposed of are as follows:

	RMB'000
NET ASSETS DISPOSED OF	
Property, plant and equipment	41,453
Intangible assets	10,114
Deferred tax assets	4,803
Inventories	95,574
Trade and bills receivables	39,766
Bank balances and cash	8,327
Deposits, prepayment and other receivables	30,652
Trade and bills payables	(35,917)
Other payables and accruals	(25,463)
Minority interests	(28,209)
	141,100
Attributable goodwill	61,536
	202,636
Loss on disposal	(101,446)
Total consideration satisfied by cash	101,190
Net cash inflow arising on disposal:	
Cash consideration	101,190
Bank balances and cash disposed of	(8,327)
	92,863

The impact of the disposed subsidiaries on the Group's results and cash flows in the current period are minimal.

The directors continue to identify potential buyers for the remaining MAT Group and expect that the net proceeds resulting therefrom will approximate the Group's net carrying amount and accordingly, no impairment loss has been recognised.

29. Pledged Bank Deposits/Bank Balances and Cash

Pledged bank deposits

The pledged bank deposits carry prevailing bank interest rates ranging from 2.43% to 3.78% (2006: 1.65%) per annum. The pledge will be released upon the settlement of the relevant bills payables.

29. Pledged Bank Deposits/Bank Balances and Cash (continued)

Bank balances and cash

Bank balances and cash, which carry prevailing market interest rates ranging from 0.72% to 1.71% (2006: ranging from 0.72% to 1.62%) per annum, comprise cash held by the Group and short-term bank deposits with an original maturity of three months or less.

30. Trade and Bills Payables

Trade and bills payables

	2007 RMB'000	2006 RMB'000
Third party suppliers	**5,102,391**	3,560,046
Related party suppliers	**242,083**	100,453
	5,344,474	3,660,499
Bills payable (note i)	**1,920,299**	1,554,959
	7,264,773	5,215,458
Trade and bills payables — included in disposal group held for sale (note 28)	**125,821**	171,753
	7,390,594	5,387,211
An analysis of trade and bills payables as at the balance sheet date is as follows:		
Within 90 days	**6,307,453**	4,494,638
Between 91 to 180 days	**729,789**	747,338
Between 181 to 365 days	**146,610**	29,570
Over 365 days	**206,742**	115,665
	7,390,594	5,387,211

Note:

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

31. Debentures

On 23rd January, 2007, the Company issued certain unsecured short term debentures to independent third parties in an aggregate principal amount of RMB900 million in the PRC. The debentures, being zero coupon with a face value of RMB100 each, were priced and issued at a discount of RMB96.31 each. The effective interest rate of the debenture is 3.8%. The debentures were repaid on 24th January, 2008. The proceeds from the debentures were used to meet the Group's production, operational and other working capital needs.

32. Bank and Other Borrowings

	2007 RMB'000	2006 RMB'000
Unsecured bank borrowings	**1,366,533**	2,280,573
Secured bank borrowings	**335,358**	582,180
Unsecured other borrowing	**—**	324,183
	1,701,891	3,186,936
The maturity profile of the above borrowings is as follows:		
On demand or within one year	**1,540,584**	1,939,274
More than one year, but not exceeding two years	**56,107**	1,247,662
More than two years, but not exceeding five years	**100,000**	—
More than five years	**5,200**	—
	1,701,891	3,186,936
Less: Amounts due within one year shown under current liabilities	**(1,540,584)**	(1,939,274)
	161,307	1,247,662

The Group's bank and other borrowings include fixed rate borrowings of RMB1,523,645,000 (2006: RMB3,106,203,000) and variable rate bank borrowings of RMB178,246,000 (2006: RMB80,733,000).

The Group's variable-rate bank borrowings carry interest at London Interbank Offered Rate plus 1.2% and the rate of the People's Bank of China minus 1%. Interest is repriced every six months.

The ranges of effective interest rates (which are also equal to contracted interest rates) on the Group's bank borrowings are as follows:

	2007	2006
Effective interest rate per annum:		
Fixed-rate borrowings	**5.0% to 8.7%**	5.6% to 6.1%
Variable-rate borrowings	**5.1% to 6.8%**	6.5%

At 31st December, 2007, the Group's borrowing of US$10,000,000 (equivalent to RMB73,046,000) (2006: RMB78,087,000) was denominated in a currency other than the functional currency of the relevant group entity.

Included in the above are defaulted bank loans of approximately RMB74.7 million (2006: RMB74.7 million) drawn by a TAGC subsidiary prior to the TAGC Acquisition which are classified as current. The Group is currently negotiating a re-structuring of these loans with the relevant bankers. As at the date of this report, the negotiations are still in progress. However, the directors are confident that their negotiations with the lenders will ultimately reach a successful conclusion.

33. Warranty Provision

	RMB'000
At 1st January, 2006	18,559
Additional provision	233,474
Utilisation of provision	(204,868)
TAGC Acquisition	34,077
At 31st December, 2006	81,242
Additional provision	402,945
Utilisation of provision	(274,094)
At 31st December, 2007	210,093

The warranty provision represents management's best estimate, based on the Group's past experience for defective products, of the Group's liability under its product warranty which is granted to the Group's customers for periods ranging from six months to three years.

34. Deferred Taxation

The following are the major deferred tax liabilities and assets recognised and movements thereon during the current and prior years:

	Trademarks RMB'000	Allowance for inventories RMB'000	Sales rebates RMB'000	Warranty provision RMB'000	Revaluation of assets RMB'000	Others RMB'000	Total RMB'000
At 1st January, 2006	—	—	—	—	—	—	—
TAGC Acquisition	(16,605)	9,264	12,190	2,178	(41,417)	(23,143)	(57,533)
Charge to income statement for the year	(10,267)	—	—	—	—	—	(10,267)
At 31st December, 2006	(26,872)	9,264	12,190	2,178	(41,417)	(23,143)	(67,800)
(Charge) credit to income statement for the year	(2,333)	20,127	20,010	29,336	—	119,799	186,939
Effect of change in tax rate	5,600	—	—	—	—	—	5,600
At 31st December, 2007	(23,605)	29,391	32,200	31,514	(41,417)	96,656	124,739

34. Deferred Taxation (continued)

The following is the analysis of the deferred tax balances for financial reporting purposes:

	2007 RMB'000	2006 RMB'000
Deferred tax assets	189,761	—
Deferred tax liabilities	(65,022)	(67,800)
	124,739	(67,800)

35. Share Capital

Details of the Company's share capital are as follows:

	Number of shares (note (i))			Registered,
	Domestic shares	H shares	A shares	issued and fully paid
	'000	'000	'000	RMB'000
At 1st January, 2006 and 31st December, 2006	203,500	126,500	—	330,000
Conversion (note (ii))	(203,500)	—	203,500	—
Issue of shares (note (iii))	—	—	190,654	190,654
At 31st December, 2007	—	126,500	394,154	520,654

Notes:

(i) Each share has a par value of RMB1.

(ii) As part of the share reform in the PRC, the Company's domestic shares were converted into "A" shares upon completion of the TAGC Acquisition.

(iii) The fair value of the Consideration Shares on the Completion Date, being RMB64.93 per share, was determined by the directors after taking into account various market factors including the closing price of these shares on their first day of trading (i.e. 30th April, 2007) on the Shenzhen Stock Exchange. Accordingly, the total fair value of the Consideration Shares on the Completion Date amounted to RMB12,379.1 million.

36. Acquisition of a Subsidiary

(a) Acquisition of Weifang Investments

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:

	Acquiree's carrying amount before combination RMB'000	Fair value adjustment RMB'000	Fair value RMB'000
Net assets acquired:			
Interest in an associate	439,017	8,303	447,320
Other receivables	215,874	—	215,874
Bank balances and cash	8	—	8
Other payables	(1,842)	—	(1,842)
	653,057	8,303	661,360
The Group's share of net assets of Weifang Investment at 30th June, 2006			(294,140)
Fair value adjustment attributable to the Group's 45% interest in Weifang Investment			(3,736)
			363,484
Goodwill (included in interest in an associate)			321,266
Total consideration			684,750
Satisfied by:			
Cash consideration paid			684,750
Net cash outflow arising on acquisition:			
Cash consideration paid			(684,750)
Cash and cash equivalents acquired			8
			(684,742)

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

The acquisition of Weifang Investment contributed RMB17.8 million to the Group's profit for the period between the date of acquisition to 31st December, 2006.

36. Acquisition of a Subsidiary (continued)

(b) TAGC Acquisition

TAGC was previously a 28.12% associate of the Group. As explained in note 2, on 29th December, 2006, the Group obtained control over TAGC's financial and operating policies and therefore TAGC became a subsidiary of the Group. This change in control has been accounted for using the principle of purchase accounting.

The net assets accounted for in the transaction are as follows:

	TAGC's carrying amount before combination RMB'000 (note)
Net assets absorbed:	
Property, plant and equipment	3,116,283
Prepaid lease payments	85,199
Premium on prepaid lease payments	40,519
Intangible assets	174,714
Investment properties	31,767
Available for sale investments	64,447
Interests in associates	161,336
Inventories	1,942,488
Trade and bills receivables	2,604,600
Deposits, prepayments and other receivables	498,979
Bank balances and cash	1,030,527
Disposal group held for sale	444,066
Trade and bills payables	(2,749,888)
Other payables and accrual	(926,042)
Tax payables	(137,433)
Bank and other borrowings	(2,514,666)
Warranty provision	(34,077)
Deferred tax liabilities	(57,533)
Minority interests	(2,110,354)
	1,664,932
Net assets of TAGC attributable to the 71.88% interest held by minority shareholders of TAGC	(1,196,753)
Transfer from interests in associates	(468,179)
	–
Net cash inflow arising on acquisition:	
Cash and cash equivalents acquired	1,030,527
Cash and cash equivalents included in disposal group held for sale (note 28)	48,477
	1,079,004

Note: The carrying amount before combination approximates the fair value.

36. Acquisition of a Subsidiary (continued)

(b) TAGC Acquisition (continued)

TAGC and its subsidiaries had no material contribution to the Group's turnover and profit for the year ended 31st December, 2006 between the Shareholders' Approval Date and the balance sheet date.

37. Capital Commitments

	2007 RMB'000	2006 RMB'000
Capital expenditure in respect of acquisition of property, plant and equipment contracted for but not provided in the financial statements	**844,578**	945,591
Capital expenditure in respect of the acquisition of property, plant and equipment authorised but not contracted for	**239,733**	249,221

38. Operating Lease Commitments

The Group as lessee

	2007 RMB'000	2006 RMB'000
Minimum lease payments paid under operating leases during the year:		
Plant and machinery	**42,814**	30,117
Premises	**16,789**	26,595
	59,603	56,712

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

	2007 RMB'000	2006 RMB'000
Within one year	**42,506**	49,634
In the second to fifth year inclusive	**69,825**	24,235
After 5 years	**145,257**	—
	257,588	73,869

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 10 years and rent is fixed over the lease term.

39. Pledge of Assets

At 31st December, 2007, the following assets of the Group were pledged to banks to secure banking facilities granted to the Group:

	2007 RMB'000	2006 RMB'000
Property, plant and equipment	**116,935**	797,040
Prepaid lease payments	**83,292**	81,926
Bank deposits	**856,109**	459,653
Bills receivables	**14,000**	382,565
Inventories	**—**	86,410
	1,070,336	1,807,594

40. Related Parties Disclosure

(a) The significant transactions with related parties during the year are as follows:

	2007 RMB'000	2006 RMB'000
Connected parties		
Weichai Holdings (note i):		
Sales of diesel engines and related parts	**257,551**	275,107
Purchase of materials	**144,994**	111,146
Warehouse and logistic services fee income	**1,151**	796
General services fee paid	**7,000**	8,131
Utility services fee paid	**110,000**	90,071
Sales and warranty period repair services fee income	**9,000**	16,917
Purchases of property, plant and equipment	**111**	418
Disposal of property, plant and equipment	**44**	39
Rental paid for certain premises, machinery and equipment	**42,814**	42,814
Chongqing Weichai Factory (note ii):		
Sales of diesel engines and related parts	**46,183**	39,276
Purchase of materials	**199**	6,232
General services fee paid	**8,452**	7,172
Utility services fee paid	**15,740**	14,012
Rental paid for certain premises, machinery and equipment	**3,404**	3,404
Processing services fee paid	**70,000**	63,070

40. Related Parties Disclosure (continued)

(a) (continued)

	2007 RMB'000	2006 RMB'000
Longgong Fujian (note iii):		
Sales of diesel engines and related parts	**135,000**	97,355
Longgong Shanghai (note iii):		
Sales of diesel engines and related parts	**377,569**	429,983
Guangxi Liugong Group (note iv):		
Sales of diesel engines and related parts	**500,000**	320,075
Shaanxi Fast Gear Automotive Transmission Co. Ltd. (note v):		
Sales of parts and components of transmission	**461,092**	—
Purchase of parts and components of transmission	**662,751**	—
General services fee paid	**30,947**	—
Rental paid for certain premises, machinery and equipment	**9,508**	—
Shaanxi Automotive Group Co. Ltd. and its associates (note vi)		
Sales of vehicles, parts and components and raw materials of vehicles and provision of heat processing services	**348,827**	—
Purchase of parts and components of vehicles and scrap steel	**805,120**	—
General services fee paid	**40,862**	—
Utility services fee paid	**14,799**	—
Rental paid for certain premises, machinery and equipment	**12,634**	—
Interest income received	**2,979**	—
Dong Feng Automotive Group Co. Ltd. (note vii):		
Sales of off-road vehicles	**13,286**	—
Purchase of parts and components of off-road vehicles	**15,955**	—
Mudan Jiang Huatong Automotive Components Company (note viii):		
Processing services fee paid	**4,656**	—
Zhuzhou Gear Share Co. Ltd. (note ix):		
Purchase of parts and components	**1,033**	—
General services fee paid	**5,339**	—
Purchase of property, plant and equipment	**12,708**	—
Rental paid for certain premises, machinery and equipments	**3,421**	—

40. Related Parties Disclosure (continued)

(a) (continued)

	2007 RMB'000	2006 RMB'000
Mr. Wang Wei and associates (note x)		
Sales of back plates, brake rotor and brake shims for automotive brake pads	**77,609**	—
Purchase of automotive brake, rotors and industrial Pups and parts	**25,435**	—
Share of general services fee	**7,020**	—
TMD Foretion Europe Gmbh (note xi)		
Sales of brake shims and back plates	**132,670**	—
China Heavy Duty Truck Group Co. Ltd. ("CHDTGL") (prior to 20th March, 2006, see note (xii)):		
Sales of diesel engines and related parts	**—**	57,764
Purchase of materials	**—**	3,904
Various associated companies of the Group;		
Sales of vehicles, parts and components and raw materials of vehicles	**50,323**	—
Purchase of diesel engines and other parts	**271,993**	—
Logistics services fee paid	**39,602**	—
Provision of utilities services	**1,738**	—

In addition to the above, during the year, the Group transacted with certain of the above companies, through third parties, as follows:

	Nature of transactions	RMB'000
Weichai Holdings	Provision of general services	320
	Supply of utilities	6,838
	Supply of diesel engines	1,321
	Purchase of finished diesel engine parts	57,245
Deutz (note xiii)	Sales of semi-finished diesel engine parts	19,505
	Provision of sales and warranty period repair services	2,543
Chongqing Weichai	Provision of processing services	16,494
Guangxi Liugong	Sales of diesel engines and parts	75,118
Longgong Fujian	Sales of diesel engines and parts	116,969

40. Related Parties Disclosure (continued)

(a) (continued)

Notes:

(i) *At 31st December, 2007, Weichai Group Holdings Limited ("Weichai Holdings") was interested in 14.91% in the Company and was the single largest shareholder of the Company.*

(ii) *Chongqing Weichai Factory is wholly owned by Weichai Holdings.*

(iii) *Longgong Fujian and Longgong Shanghai are wholly owned subsidiaries of China Infrastructure Machinery Holdings Limited ("CIMHL"), a listed company in Hong Kong. Mr. Li San Yim, a non-executive director, and Ms. Ni Yingying, the wife of Mr. Li San Yim, both have beneficial interests in CIMHL and the Company.*

(iv) *Guangxi Liugong is a promoter of the Company and held 1.36% interest in the Company at 31st December, 2007. Guangxi Liugong together with its affiliates are collectively referred as the "Guangxi Liugong Group".*

(v) *Shaanxi Fast Gear Automotive Transmission Co. Ltd. is a substantial shareholder of Shaanxi Fast Gear Co. Ltd., a company established in the PRC and a 51% subsidiary of the Company.*

(vi) *Shaanxi Automotive Group Co. Ltd. ("Shaanxi Automotive") is a substantial shareholder of Shaanxi Heavy Duty Motor Company Limited, a company established in the PRC and a 51% subsidiary of the Company.*

(vii) *Dong Feng Automotive Group Co. Ltd. is a substantial shareholder of Dong Feng Off-road Vehicle Co. Ltd., a company established in the PRC and a 60% subsidiary of the Company.*

(viii) *Mudan Jiang Huatong Automotive Components Company is a substantial shareholder of Mudan Jiang Futong Automotive Air Conditioner Co. Ltd., a company established in the PRC and a 51% subsidiary of the Company.*

(ix) *Zhuzhou Gear Share Co. Ltd. is a substantial shareholder of Zhuzhou Gear Co. Ltd., a company established in the PRC and a 57% subsidiary of the Company.*

(x) *These are companies which are associates of Mr. Weng Wei. Mr. Wang Wei has a 25% interest in MAT, a company established in the United States of America and a 75% subsidiary of the Company.*

(xi) *TMD is a substantial shareholder of a non-wholly owned subsidiary of MAT.*

(xii) *CHDTGL was the holding company of Weichai Holdings which held 23.53% interest in the Company as at 31st December, 2006. 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 Weichai Holdings whereby CHDTGL transferred its entire ownership in Weichai Holdings to Shandong SASAC for its direct holding. CHDTGL ceased to have any direct or indirect interest in the Company thereafter.*

(xiii) *Weifang Weichai Deutz Diesel Engine Co. Ltd. ("Deutz") is a 50% owned associate of Weichai Holdings.*

(xiv) *In addition, on 14th May, 2007, the Company entered into (i) seven conditional share transfer agreements, as amended on 9th June, 2007, with MAT (Beijing) International Trading Co., Limited ("MAT Beijing") in respect of the sale of the Company's 75% equity interests in seven companies ("MAT Companies") held by the Company and (ii) a conditional share transfer agreement, as amended on 9th June, 2007, with MAT Automotive Inc. ("MAT Auto"), a 75% equity interest subsidiary, with respect of the sale of the Company's 49% equity interests in Dalian Hongyuan Machinery Co., Limited held by the Company to MAT Auto.*

MAT Beijing is indirectly wholly owned by Mr. Wang Wei. The Company held 75% equity interest and Mr. Wang Wei indirectly held 25% equity interest in each of the MAT Companies.

40. Related Parties Disclosure (continued)

(b) Details of non-trade balances with related parties are as follows:

(i) Amount due to Weichai Holdings

	2007 RMB'000	2006 RMB'000
Within one year	**65,657**	66,229
In the second year	**—**	61,510
In the third to fifth year inclusive	**—**	—
	65,657	127,739
Less: Amount due for settlement within one year (including under current liabilities)	**(65,657)**	(66,229)
	—	61,510

The amount is unsecured and interest-free. The effective interest rate is approximately 5% per annum.

At 31st December, 2007, the fair value of the above amount was approximately RMB65,657,000 (2006: RMB127,739,000), determined based on the present value of the estimated future cash outflows discounted using the prevailing market rate at the balance sheet.

(ii) Amount due from Shaanxi Automotive

Included in the Group's other receivables at 31st December, 2007 is an amount of RMB61,000,000 (2006: Nil) due from Shaanxi Automotive, which carries interest rate at 6.57% per annum. The amount is unsecured and repayable in 2008.

(iii) Amount due from an associate of Wang Wei

At 31st December, 2007, loans were extended to an associate of Mr. Wang Wei in the amount of approximately RMB53,075,000. The loans are unsecured and interest bearing at 1% over Nordea Bank Offering Rate per annum, effective at 5.35% per annum for the year.

(iv) Amount due from CHDTGL

At 31st December, 2006, a refundable deposit of RMB80,000,000 was placed by the Group in CHDTGL. The deposit was refunded to the Group in January 2007.

40. Related Parties Disclosure (continued)

(c) Compensation of key management personnel

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

	2007 RMB'000	2006 RMB'000
Short-term benefits	13,317	5,265
Post-employment benefits	—	24
	13,317	5,289

(d) Credit facilities

At 31st December, 2007, a minority shareholder of a subsidiary, Zhuzhou Gear Co. Ltd., pledged its buildings of RMB65,900,000 (2006: RMB65,900,000) to a bank in order to secure general banking facilities granted by the bank to the subsidiary.

At 31st December, 2007, a minority shareholder of a subsidiary, Mudan Jiang Futong Automotive Air Conditioner Co. Ltd., pledged its buildings of RMB12,100,000 (2006: RMB12,100,000) to a bank in order to secure general banking facilities granted by the bank to the subsidiary.

At 31st December, 2007, a minority shareholder of a subsidiary, Shaanxi Heavy Duty Motor Company Limited, had given guarantee amounting to RMB128,000,000 (2006: RMB100,000,000) to a bank in order to secure general banking facilities granted by the bank to the subsidiary.

(e) 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 Holdings which is controlled by the PRC government. Apart from the transactions with Weichai Holdings and fellow subsidiaries and other related parties disclosed in sections (a) to (d) 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.

40. Related Parties Disclosure (continued)

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

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

	2007 RMB'000	2006 RMB'000
Trade sales	**6,583,654**	2,093,558
Trade purchases	**1,582,695**	1,074,915
Amounts due to other state-controlled entities	**163,782**	277,649
Amounts due from other state-controlled entities	**158,252**	12,036

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.

41. Retirement Benefits

Defined contribution plans

The employees of the Group are members of state-managed retirement benefit schemes operated by the government in the PRC. The Group is required to contribute a fixed percentage of payroll costs to the retirement benefit schemes to fund the benefits. The only obligation of the Group with respect to the retirement benefit schemes is to make the specified contributions.

42. Particulars of Principal Subsidiaries

The following table lists the principal subsidiaries of the Group as at 31st December, 2006 and 2007:

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	Indirectly	Principal activities
濰柴動力(濰坊)備品資源有限公司	Incorporated	The PRC	89,795,918	51%	—	Trading of spare parts of diesel engine to group companies
濰柴動力(濰坊)油品有限公司	Incorporated	The PRC	10,000,000	100%	—	Trading of lubricant oil products to group companies
濰柴動力(濰坊)集約配送有限公司	Incorporated	The PRC	20,000,000	52%	—	Provision of warehouse management services to group companies
Shaanxi Fast Gear Co., Ltd 陝西法士特齒輪有限責任公司	Incorporated	The PRC	256,790,000	51%	—	Trading of automotive components
Baoji Fast Gear Co., Ltd 寶雞法士特齒輪有限責任公司	Incorporated	The PRC	30,000,000	2.5%	48.5%	Manufacturing and sale of automotive components
Xian Fast Auto Driving System Co., Ltd. 西安法士特汽車傳動有限公司	Incorporated	The PRC	120,000,000	—	50.9%	Trading of motor vehicles and related automotive components
法士特銷售公司	Incorporated	The PRC	1,000,000	—	51%	Trading of automotive components
法士特進出口公司	Incorporated	The PRC	3,000,000	—	51%	Provision of export and import services
Shaanxi Heavy-Duty Automotive Co., Ltd 陝西重型汽車有限公司	Incorporated	The PRC	1,706,300,000	51%	—	Trading of heavy duty trucks and related automotive components
Shaanxi Hande Axle Co., Ltd. 陝西漢德車轎有限公司	Incorporated	The PRC	180,000,000	3.1%	47.9%	Manufacturing and sale of automotive and related services
Shaanxi Jinding Casting Co. Ltd. 陝西金鼎鑄造有限公司	Incorporated	The PRC	35,360,000	—	46.4% (note iii)	Provision of casting products and related development services
Shaanxi Heavy Duty Automotive Import & Export Co., Ltd. 陝西重型汽車進出口有限公司	Incorporated	The PRC	10,000,000	—	41.8% (note iii)	Trading of heavy duty trucks and related automotive components
天津市天掛車輛有限公司 ("天津天掛") (note iv)	Incorporated	The PRC	11,760,000	—	26% (note iii)	Manufacturing and sales of motor vehicles

42. Particulars of Principal Subsidiaries (continued)

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	Indirectly	Principal activities
Zhuzhou Gear Co., Ltd. 株州齒輪有限責任公司	Incorporated	The PRC	81,315,000	57%	—	Trading of motor vehicles and related automotive components
Zhuzhou Wandefu Gear Co. Ltd. 株州萬德福齒輪有限責任公司	Incorporated	The PRC	1,000,000	—	45.9% (note iii)	Manufacturing and sales of motor vehicles and related automotive components
Zhuzhou Wande Forging Co. Ltd. 株州萬德精鍛有限責任公司	Incorporated	The PRC	5,000,000	—	50.9%	Manufacturing and sales of motor vehicles and related automotive components
Zhuzhou Euro Grace Gear Automotive Transmission Co. Ltd. 株州歐格瑞傳動股份有限公司	Incorporated	The PRC	50,000,000	—	45.9% (note iii)	Trading of automotive components
Zhuzhou Torch Sparkplugs Co., Ltd 株州湘火炬火花塞有限責任公司	Incorporated	The PRC	80,000,000	97.5%	—	Trading of spark plugs
Zhuzhou Torch Machinery Manufacturing Co., Ltd 湘火炬機械製造有限責任公司	Incorporated	The PRC	46,000,000	100%	—	Trading of automotive component
Zhuzhou Torch Auto Electronics Co., Ltd 株州湘火炬汽車電器有限責任公司	Incorporated	The PRC	9,700,000	73.7%	—	Trading of automotive components
Zhuzhou Torch Construction Engineering Co., Ltd 株州火炬建築工程有限責任公司	Incorporated	The PRC	7,000,000	15.4%	61.1%	Provision of construction services
Zhuzhou Torch Auto Lighting Co, Ltd 株州湘火炬汽車燈具有限責任公司	Incorporated	The PRC	12,000,000	97.8%	—	Trading of automotive components
Zhuzhou Torch Auto Sealing Co, Ltd. 株州湘火炬汽車密封有限責任公司	Incorporated	The PRC	9,000,000	94.6%	—	Trading of automotive components
Torch Import & Export Co,. Ltd 火炬進出口有限責任公司	Incorporated	The PRC	181,000,000	98.3%	1.7%	Provision of export and import services
Zhuzhou Torch Property Development Co., Ltd 株州火炬房地產開發有限責任公司	Incorporated	The PRC	9,500,000	92.6%	7.2%	Provision of properties development

Notes:

(i) The above table lists the subsidiaries of the Company which, in the opinion of the directors, principally affected the results or assets of the Group. To give details of other subsidiaries would, in the opinion of the directors, result in particulars of excessive length.

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

(iii) This represents controlling interest held through non-wholly owned subsidiaries.

(iv) The subsidiary was incorporated in 2007.

(v) All the above subsidiaries are domestic companies with limited liability.

Financial Summary

	For the year ended 31st December,				
	2003 RMB'000 (audited)	2004 RMB'000 (audited)	2005 RMB'000 (audited)	2006 RMB'000 (audited) (restated)	**2007 RMB'000 (audited)**
RESULTS					
Turnover	3,555,670	6,155,779	5,250,735	6,633,668	**27,424,960**
Profit before taxation	455,493	738,738	410,602	889,109	**3,273,142**
Income tax expense	(178,025)	(205,484)	(93,919)	(181,099)	**(479,566)**
Profit for the year	277,468	533,254	316,683	708,010	**2,793,576**
Attributable to:					
Equity holders of the parent	277,468	533,254	315,203	702,695	**2,014,904**
Minority interests	—	—	1,480	5,315	**778,672**
	277,468	533,254	316,683	708,010	**2,793,576**
Dividends	20,859	72,075	103,955	120,450	**67,685**
Basic earnings per share (in RMB)	1.29	1.73	0.96	2.13	**4.36**

	As at 31st December,				
	2003 RMB'000 (audited)	2004 RMB'000 (audited)	2005 RMB'000 (audited)	2006 RMB'000 (audited) (restated)	**2007 RMB'000 (audited)**
ASSETS AND LIABILITIES					
Total assets	2,371,908	4,914,308	5,611,955	16,855,513	**22,255,645**
Total liabilities	(1,897,408)	(2,757,587)	(3,150,994)	(10,496,149)	**(12,857,457)**
Capital and reserves	474,500	2,156,721	2,460,961	6,359,364	**9,398,188**
Equity attributable to equity holders of the Company	474,500	2,156,721	2,398,581	2,984,562	**6,383,472**
Minority interests	—	—	62,380	3,374,802	**3,014,716**
	474,500	2,156,721	2,460,961	6,359,364	**9,398,188**

Supplemental Information

Statement of Differences between Consolidated Financial Statements prepared under Hong Kong Financial Reporting Standards ("HKFRS") and those under Accounting Standards for Business Enterprises ("PRC GAAP")

Other than certain classification of financial statement items, there are no significant differences between the results for the year ended 31st December, 2007 and the net assets as of that date as reported in the accounts prepared using PRC GAAP and HKFRS.