WEICHAI

濰柴動力股份有限公司
WEICHAI POWER CO., LTD.

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

(Stock Code: 2338)

ANNOUNCEMENT OF FINAL RESULTS FOR THE YEAR ENDED 31ST DECEMBER, 2007

FINANCIAL HIGHLIGHTS

- Turnover amounted to approximately RMB27,425.0 million, up by approximately 313.4%.
- Profit attributable to shareholders amounted to approximately RMB2,014.9 million, up by approximately 186.7%.
- Basic earnings per share was approximately RMB4.36, up by approximately 104.7%.

The board of directors (the "Board") of Weichai Power Co., Ltd. (the "Company") is pleased to announce the audited consolidated results of the Company and its subsidiaries (the "Group") for the year ended 31 December, 2007 (the "Period"), together with comparative figures for the year of 2006 as follows:

CONSOLIDATED INCOME STATEMENT
For the year ended 31st December, 2007

	NOTE	2007 RMB'000	2006 RMB'000
Turnover	4	**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	5	**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	6	**(253,120)**	(63,160)
Profit before taxation	7	**3,273,142**	889,109
Income tax expense	8	**(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	9	**67,685**	120,450
Basic earnings per share	10	**RMB4.36**	RMB2.13

CONSOLIDATED BALANCE SHEET
At 31st December, 2007

	NOTE	**2007** **RMB'000**	2006 RMB'000 (Re-stated)
NON-CURRENT ASSETS			
Property, plant and equipment		**5,826,338**	5,058,459
Prepaid lease payments — non-current portion		**268,767**	184,931
Investment properties		**32,333**	31,767
Goodwill		**538,016**	599,552
Intangible assets		**253,489**	314,717
Interests in associates		**220,106**	161,336
Available-for-sale financial assets		**75,358**	84,447
Deposits paid for acquisition of property, plant and equipment		**926,571**	320,565
Deferred tax assets		**189,761**	—
		8,330,739	6,755,774
CURRENT ASSETS			
Inventories	*11*	**4,200,010**	2,839,480
Trade and bills receivables	*12*	**5,909,502**	4,001,876
Deposits, prepayments and other receivables		**857,515**	727,473
Prepaid lease payments - current portion		**3,754**	1,278
Disposal group held for sale		**278,462**	444,066
Pledged bank deposits		**856,109**	459,653
Bank balances and cash		**1,819,554**	1,625,913
		13,924,906	10,099,739
CURRENT LIABILITIES			
Trade and bills payables	*13*	**7,264,773**	5,215,458
Other payables and accruals		**2,180,004**	1,483,900
Amount due to a related party - non-trade		**65,657**	66,229
Tax payable		**438,252**	333,074
Dividend payables to minority shareholders		**31,765**	—
Debentures		**900,000**	—
Bank and other borrowings - due within one year		**1,540,584**	1,939,274
Warranty Provision		**210,093**	81,242
		12,631,128	9,119,177

	2007	2006
	RMB'000	*RMB'000*
		(Re-stated)
NET CURRENT ASSETS	**1,293,778**	980,562
TOTAL ASSETS LESS CURRENT LIABILITIES	**9,624,517**	7,736,336
NON-CURRENT LIABILITIES		
Amount due to a related party - non-trade	**—**	61,510
Bank and other borrowings — due after one year	**161,307**	1,247,662
Deferred tax liabilities	**65,022**	67,800
	226,329	1,376,972
	9,398,188	6,359,364
CAPITAL AND RESERVES		
Share capital	**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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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, (iii) Non-major automobile components and (iv) Import and Export services.

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.

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	**Adjustment for TAGC as a subsidiary**	**As re-stated**
	RMB'000	*RMB'000*	*RMB'000*
Current assets	3,579,079	6,520,660	10,099,739
Interest in associate	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 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 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 either effective for accounting periods beginning on or after 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. 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	Automobiles and other major automobile components	Non-major automobile components	Import & export services	Elimination	Consolidated
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*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

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.

5. OTHER INCOME

	2007	2006
	RMB'000	*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 investments	**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.

6. FINANCE COSTS

	2007	2006
	RMB'000	*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.

7. PROFIT BEFORE TAXATION

	2007	2006
	RMB'000	*RMB'000*
Profit before taxation has been arrived at after charging:		
Directors' and Supervisors' emoluments	**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.

8. INCOME TAX EXPENSE

	2007	2006
	RMB'000	*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	**(192,539)**	10,267
	479,566	181,099

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.

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

	2007	2006
	RMB'000	*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

9. DIVIDENDS

	2007	2006
	RMB'000	*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.

10. 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.

11. INVENTORIES

	2007	2006
	RMB'000	*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

12. TRADE AND BILLS RECEIVABLES

Trade and bills receivables

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

Note:

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

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	2006
	RMB'000	*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	2006
	RMB'000	*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.

Movement in the allowance for doubtful debts

	2007	2006
	RMB'000	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: RMB4 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.

13. TRADE AND BILLS PAYABLES

	2007	2006
	RMB'000	*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	**1,920,299**	1,554,959
	7,264,773	5,215,458
Trade and bills payables - included in disposal group held for sale	**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

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%.

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.

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.

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:

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	**Adjustment for TAGC as a subsidiary**	**As re-stated**
	RMB'000	*RMB'000*	*RMB'000*
Current assets	3,579,079	6,520,660	10,099,739
Interest in associate	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 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 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.

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.

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' 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:

Long positions

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 a 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*

Long position

Serial No	Names of restricted shares shareholders	Number of restricted shares held	Time permitted to be listed and traded in the market	Number of Shares permitted to be listed and traded in the market	Restriction
1.	濰柴控股集團有限公司 (Weichai Group Holdings Limited) ("Weichai Holdings")	77,647,900	30th April, 2010	—	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.
2.	Peterson Holdings Company Limited	23,500,000	30th April, 2010	—	
3.	福建龍岩工程機械(集團)有限公司 (Fujian Longyan Construction Machinery (Group) Company Limited)	21,500,000	30th April, 2010	—	
4.	深圳市創新投資集團有限公司 (Shenzhen Chuangxin Investment Group Company Limited)	21,500,000	30th April, 2010	—	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.
5.	濰坊市投資公司 (Weifang Investment Company)	19,311,550	30th April, 2010	—	
6.	株洲市國有資產投資經營有限公司 (Zhuzhou State-owned Assets Administration Management Company Limited)	15,140,586	30th April, 2010	—	
7.	奧地利IVM技術諮詢維也納有限公司 (IVM Technical Consultants Wien Gesellschaft m.b.H)	10,750,000	30th April, 2010	—	
8.	山東省企業託管經營股份有限公司 (Shandong Enterprise Trust Operation Company Limited)	10,000,000	30th April, 2010	—	
9.	廣西柳工集團有限公司 (Guangxi Liugong Group Limited)	4,490,550	30th April, 2010	—	
10.	Tan Xuguang	4,300,000	30th April, 2010	—	

(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
Long position					
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

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
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	—
China Industrial and Commercial Bank — 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

Names of shareholders	Number of the non-restricted shares held	Types of 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. Among the aforementioned shareholders, 易方達價值精選股票型證券投資基金 and 易方達價值成長混合型證券投資基金 both are managed by a fund manager, namely 易方達基金管理公司 (E Fund Management Co., Ltd).

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 was appointed 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.

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 Period, 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 attributable to the Group's largest customer and the five largest customers accounted for approximately 12.1% and 25.9%, respectively, of the Group's total sales for the year.

At 31st December, 2007, Longgong Fujian was a shareholder holding more than 5% of the Company's share capital. An affiliate of Longgong Fujian, Longgong Shanghai, was one of the Group's five largest customers. All transactions between the Group and the customer concerned were carried out on normal commercial terms.

The aggregate purchase during the Period 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 Period, the Group made charitable donation amounting to RMB4,957,000.

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

As at the date of this announcement, the executive Directors of the Company are Mr. Tan Xuguang, Mr. Xu Xinyu, Mr. Sun ShaoJune and Mr. Zhang Quan; the non-executive Directors of the Company are Mr. Yeung Sai Hong, Mr. Yao Yu, Mr. Li San Yim, Mr. Liu Huisheng, Ms. Zhang Fusheng, Mr. Julius G. Kiss, Ms. Han Xiaoqun, Mr. Chen Xuejian, Mr. Gu Linsheng, Mr. Li Shihao and Mr. Liu Zheng; and the independent non-executive Directors of the Company are Mr. Zhang Xiaoyu, Mr. Koo Fook Sun, Louis and Mr. Fang Zhongchang,