China Infrastructure Machinery Holdings Limited

中國龍工控股有限公司*

(incorporated in the Cayman Islands with limited liability)

Stock Code : 3339

Annual Report 2007

* For identification purpose only

Contents

Corporate Information

BOARD OF DIRECTORS

Executive directors

Mr. Li San Yim *(Chairman)*
Mr. Qiu Debo *(Chief Executive Officer)*
Mr. Luo Jianru
Dr. Mou Yan Qun
Mr. Chen Chao
Mr. Lin Zhong Ming
Dr. Zhang Hong

Non-executive directors

Ms. Ngai Ngan Ying
Ms. Fang De Qin

Independent non-executive directors

Prof. Yang Hongqi
Dr. Qian Shizheng
Mr. Lo Peter

AUDIT COMMITTEE

Dr. Qian Shizheng *(Chairman)*
Mr. Lo Peter
Ms. Fang De Qin

REMUNERATION COMMITTEE

Mr. Lo Peter *(Chairman)*
Dr. Qian Shizheng
Ms. Ngai Ngan Ying

EXECUTIVE COMMITTEE

Mr. Qiu Debo *(Chairman)*
Mr. Li San Yim
Mr. Luo Jianru
Dr. Mou Yan Qun
Mr. Chen Chao
Mr. Lin Zhong Ming
Dr. Zhang Hong

QUALIFIED ACCOUNTANTS AND COMPANY SECRETARY

Mr. Lam Yiu Pang, *HKICPA, ACA (Aust)*

HEAD OFFICE

No. 26 Mingyi Road, Xinqiao,
Songjiang Industrial,
Shanghai (201612), PRC

REGISTERED OFFICE

Cricket Square
Hutchins Drive
P.O. Box 2681
Grand Cayman KY1-1111
Cayman Islands

INVESTOR RELATIONS

Ms. Wang Zhen
wz@chinalonggong.com

PRINCIPAL PLACE OF BUSINESS IN HONG KONG

Unit 3413, China Merchants Tower
Shun Tak Centre
168-200 Connaught Road Central
Hong Kong

WEBSITE

http://www.chinalonggong.com

STOCK CODE

3339

PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

Butterfield Fund Services (Cayman) Limited
Butterfield House, 68 Fort Street
Box 705, George Town
Grand Cayman, Cayman Islands
British West Indies

HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

Computershare Hong Kong Investor Services Limited
Shops 1712-1716, 17/F, Hopewell Centre,
183 Queen's Road East, Wanchai, Hong Kong

SOLICITORS

Sidley Austin
39/F, Two International Finance Centre
8 Finance Street Central, Hong Kong

AUDITORS

Deloitte Touche Tohmatsu
35/F One Pacific Place
88 Queensway
Hong Kong

PRINCIPAL BANKERS

Bank of China
Longyan Branch
Bank of China Tower
No. 1 Longchuan Bei Road Longyan City
Fujian, PRC

China Construction Bank
Shanghai Songjiang Branch
No. 89 Zhongshan Zhong P.O. Road
Songjiang District
Shanghai, PRC

Financial Highlights

FINANCIAL HIGHLIGHTS

The table below sets forth the consolidated financial summary of China Infrastructure Machinery Holdings Ltd (the "Company") and its subsidiaries (hereinafter collectively referred as to the "Group").

Current period	**2007** **RMB'000**	2006 RMB'000	Change (+/–)
Turnover	**5,308,624**	3,717,939	+42.78%
Operating profits:			
excluding unrealized loss on fair value changes in derivatives components of convertible bonds	**790,691**	636,412	+24.24%
including unrealized loss on fair value changes in derivatives components of convertible bonds	**795,744**	636,412	+25.04%
EBITDA			
excluding unrealized loss on fair value changes in derivatives components of convertible bonds	**856,023**	672,376	+27.31%
including unrealized loss on fair value changes in derivatives components of convertible bonds	**861,076**	672,376	+28.06%
Profit attributable to equity parent	**629,616**	624,154	+0.88%

Per share data	**RMB**	RMB	
Basic earnings per share[(1)#]			
excluding unrealized loss on fair value changes in derivatives components of convertible bonds	**0.58**	0.60	-3.33%
including unrealized loss on fair value changes in derivatives components of convertible bonds	**0.59**	0.60	-1.67%
Net assets per share[(2)#]	**2.63**	1.71	+53.80%

Financial Highlights

Key performance indicators	%	%	
Profitability			
Overall gross margin	**22.45**	25.74	-3.29%
Net profit margin			
excluding unrealized loss on fair value changes in derivatives components of convertible bonds	**11.76**	16.82	-5.06%
including unrealized loss on fair value changes in derivatives components of convertible bonds	**11.86**	16.82	-4.96%
EBITDA margin(3)			
excluding unrealized loss on fair value changes in derivatives components of convertible bonds	**16.13**	18.08	-1.95%
including unrealized loss on fair value changes in derivatives components of convertible bonds	**16.22**	18.08	-1.86%
Return on equity(4)	**22.35**	35.17	-12.82%
Liquidity and solvency			
Current ratio(5)	**2.78**	1.85	+50.27%
Interest coverage ratio(6)			
excluding unrealized loss on fair value changes in derivatives components of convertible bonds	**7.08**	31.29	-77.37%
including unrealized loss on fair value changes in derivatives components of convertible bonds	**7.13**	31.29	-77.21%
Gross debt-to-equity ratio(7)	**66.03%**	15.01%	+339.91%

Management efficiency	days	days	
Inventory turnover days(8)	**108**	110	-2 days
Trade and bills payables turnover days(9)	**73**	56	+17 days
Trade and bills receivable turnover days(10)	**53**	51	+2 days

Financial Highlights

\# Calculated based on the 1,072,809 shares outstanding as at 31 December 2007 (31 December 2006: 1,037,050,000).

1 Net profit attributable to equity holders of the parent for each period divided by the weighted average number of outstanding shares (WANOS) as at the end of each period.

2 Shareholders' equity divided by the WANOS as at the end of each period.

3 Earnings before interest, tax, depreciation and amortisation ("EBITDA") divided by turnover for each period.

4 Net profit attributable to equity holders of the parent for each period divided by equity attributable to equity shareholders of the parent as at the end of each period.

5 Current assets divided by current liabilities as at the end of each period.

6 Earnings before interest and income tax expenses ("EBIT") divided by interest expenses.

7 Interest-bearing debt for each period divided by the total equity as at the end of each period.

8 Average inventories divided by cost of sales and multiplied by 365 days.

9 Average trade and bills payables divided by cost of sales and multiplied by 365 days.

10 Average trade and bills receivables divided by turnover and multiplied by 365 days.

Chairman's Statement

On behalf of the board of directors (the "Board"), I am pleased to present the annual report of China Infrastructure Machinery Holdings Limited (the "Company" or "China Longgong") for the year ended 31 December 2007.

REVIEW OF BUSINESS

Thanks to the rapid growth of the China's economy, the overall business of the Company showed outstanding development with encouraging performance in 2007. The Company has successfully attained the targets set for 2007 in respect of manufacture and sales of loaders. In 2007, achievements of China Longgong included the followings: manufacture and sales of loaders, road rollers, excavators and fork lifts reached 29,000 units; quality and output of great-box, axle, hydraulic cylinder, gear, pipe and other parts improved significantly; the strategy of vertical integration had been implemented continually; export increased rapidly, and sales networks in Russia, Middle East, Australia and Africa had been successfully established and consolidated, expanding the market for our products; the Company announced that a one-year free warranty period would be provided for loaders from 18 December 2006 onwards, and such pioneering action in the industry not only will enhance the competitive strengths of China Longgong's products, but also raise the brand awareness and reputation of China Longgong; Longgong trademark has been honoured as a renowned trademark in China, and loaders of China Longgong was rated as brand products of China. The research and development capability of the Company was further strengthened in 2007. New products were launch successfully, including loaders and road rollers of several dozens of different models, bringing remarkable sales for the year. New products series of fork lifts and excavators were launched. In 2007, sales of fork lifts reached 1,000 units, which enabled the Company to occupy a favourable market position in logistics machinery sector. The Company also acquired Henan Zhenghou Baiyun Electric Company（河南鄭州白雲機電公司）to form Henan Longgong, which allows the Company to occupy a strategic geographical location. In 2007, the Company conducted technology enhancements and expansion in Shanghai, Fujian, Jiangxi and Henan, laying a good foundation for the development of China Longgong in the coming years. The Company's overall strength has been significantly enhanced, with product sales, realized profits, tax paid and employee income hitting record high level. Both the management team and employees demonstrated full confidence and great passion.

Since its listing, China Longgong has strived to maintain transparency and improve standards of corporate governance. We have established and maintained good communication with our investors, who recognize the broad development strategies of the Company and are confident of the Company's future development.

For the year ended 31 December 2007, annual turnover of the Company was RMB5,308,624,000, up 42.8% over the corresponding period of the previous year. Net profit attributable to shareholders of the Company amounted to RMB629,449,000.

Chairman's Statement

In recent years, the economy of China has been growing rapidly with a strong upward trend, and purchasing power of the people has increased remarkably, constituting a favourable business environment for the future development of the Company. The nation is currently carrying out a number of large-scale projects, including Development of Western Regions, West-to-East Gas Transmission project, South-to-North Water Diversion project, Beijing 2008 Olympic Games and World Expo Shanghai 2010. In addition, during the period covered by the Eleventh Five-Year Plan, there are a number of infrastructure constructions involving railways, highways, energy, water conservancy and hydropower, urbanization and new construction projects in rural areas. All these projects will bring new opportunities for the development of China's construction machinery industry and provide enormous potential of development to China Longgong.

China Longgong has been dedicated to forming its core competence, and has secured a number of outstanding competitive advantages: a leading market position and brand awareness; strategic geographical locations; the operation model of vertical integration; a powerful distribution and service network covering the whole nation; strong research and development capabilities; the advantage of a high performance-price ratio for its products; experienced management team and effective operation mechanism. The Company will make the best of its existing competitive advantages to strengthen every details of its value chain from research and development to purchasing, manufacture, sale, service and end-users, making it extend and develop to the largest extent. The Company will also carry out effective control on costs of administration, purchasing, operation, etc., so as to improve its operating efficiency and grasp every opportunity to obtain impressive results in industry consolidation and future development.

CORPORATE STRATEGY

In order to ensure the future sustainable development of the Company, we have formulated a diversified strategy focusing on construction machinery, with emphasis on cost control, improvement of production capacity, enhancement of research and development of our products, expansion of new markets, expansion of sales and service network, and development of overseas market. Our aim is to become one of the global leading manufacturers of construction machinery through continuous growth and improvement of profitability.

Cost control. The Company mitigates cost pressure brought by rise in costs of raw materials through economies of scale and improvement of internal management so that the gross profit margin of the Company will maintain at a leading level in the industry.

Expansion and improvement of production capacity. The Company has expanded the production capacity of two production bases, which occupy the strategic geographical locations of Shanghai and Fujian, so as to cope with the market demand for the Company's products and achieve cost reduction by taking advantage of economies of scale. It is expected that at the end of 2008, annual production capacity of loaders will reach 40,000 units, road construction machines will reach 1,000 units, excavators will reach 3,000 units, fork lifts will reach 10,000 units and harvesting machines will reach 10,000 units.

Enhancement of product research and development. The Company will increase its investment in technology research institutes, and engage more professionals to join our research and development team. It will also strengthen its cooperation with international professional institutions and renowned universities in order to develop more loaders, road rollers, excavators, forklifts and other machinery products that meet the various needs of our customers, bringing more series and diversification for our products.

Market expansion for new products. New products including excavators and fork lifts are new sources of growth for the future development of China Longgong. The Company will strengthen its efforts to expand the market for these products. It will also continue to increase the market share of these products and increase their gross profit margin.

Intensifying establishment of distribution and after-sales service network. In order to obtain more market shares, the Company will continue to increase investment in its distribution and service network, encourage and support the distribution agents to grow and develop and become our exclusive sales agents and loyal partners. The Company will also expand sales service network of excavators and fork lifts.

Expansion of overseas markets. After batch export of the Company's products in 2007, our products have won recognition of overseas distribution agents and customers, which have boosted our confidence to take part in the international competition. The Company will actively carry out research and development on new products that meet the demands of various overseas markets, and establish a sound overseas distribution agent network. The Company will promote the Longgong brand to the global market making use of the high performance-price ratio of our products and our excellent service and attain the leap-forward development of our overseas business.

We are honoured to have a professional Board, an experienced and diligent management team, and industrious and intelligent employees. I wish to take this opportunity to express my sincere gratitude to all directors and employees for their assiduous efforts. We will do our utmost to recruit talents to realize the sustainable development of China Longgong.

As always, China Longgong will strive to become a leading manufacturer in construction machinery industry, attain sustainable growth and maintain profitability, and exert all our efforts to create the greatest value for our customers and bring the best returns to our shareholders.

Li San Yim
Chairman

25 March 2008

Management Discussion and Analysis

RESULTS AND BUSINESS REVIEW

We experienced a fast-growing year of 2007. Other than a strong increase of sales in PRC market, we also see a further success in the overseas market. The Group's consolidated turnover for the Period was approximately RMB5,309 million representing an increase of approximately 42.8% as compared to approximately RMB3,718 million over the same period of 2006. Gross profit from operations was approximately RMB1,192 million representing an increase of approximately 24.5% as compared to approximately RMB957 million when compared with the corresponding period in 2006. Overall gross margin has slightly decreased to approximately 22.5% as compared to approximately 25.7% from the year ended of 2006. The change in gross margin for the Period was mainly attributable to the followings: (i) the steel cost has significantly increased in the year of 2007 over 2006; (ii) exported products are normally sold in a relevant higher price which resulted in a higher gross margin in unit while the export volume recorded a continuously increase; (iii) the total labour cost and overhead has been effectively controlled which set off part of effect of steel cost increase. Profits attributable to the Group equity holders for the Period was approximately RMB629 million compared with that of 2006 in approximately RMB624 million. The Company's basic earnings per share were approximately RMB0.59 representing a decrease of approximately 1.7% over the corresponding period in 2006.

Geographical Results

The northern regions of the PRC continuously remained as the Company's principal marketing regions and represented approximately 34% of our total turnover for the Period, or an increase of 1.9% from last year. We attribute such geographical turnover to the strong demand for infrastructure machinery in the northern region as caused by the PRC government's encouragement of investments in many major construction and development projects. The north western and south western regions of the PRC still maintained a stable-growing trend this year, representing approximately 27% of our total turnover for the period. In addition to our success in the PRC market, the overseas market showed a very strong increase in sales which amounted to approximately RMB287 million, nearly 399% as compared to the corresponding period last year (2006: RMB72 million). The exporting sales represent approximately 5.4% of our total turnover as compared to only 2.5% in the corresponding period last year.

Wheel Loaders

Wheel loaders were primarily applied in a variety of infrastructure activities, including construction of roads, railways, tunnels, bridges, mining activities, water and electricity projects, steel and cements manufacturing and construction and real estates. Our products target mainly the PRC infrastructure and mining sectors.

We manufacture three principal series of wheel loaders, the ZL30, ZL40 and ZL50 series, with designed loading power ranging from below three to five tons. Wheel loaders were again the major sales generator for the Company which accounted for approximately 93% of the Company's turnover for the Period. ZL50 series continued to be the main revenue driver and achieved a turnover of approximately RMB4,173 million for the Period, representing an increase of approximately 37% when compared with the same period in 2006. Some new models such as LG855, LG853, ZL50D and ZL50EX within this series had been successfully designed and delivered to the market under the efforts of our Research and Development ("R&D") department. It is expected that these new models will insure our group maintain the competitive edge compared with our competitors in the same industry, generally contribute a higher gross margin. ZL30 series is the second largest revenue contributor and has achieved a turnover of approximately RMB668 million, showing an increase of approximately 40% when compared to the corresponding period last year. Although there had an approximately 171% increase in sales of ZL40 series and achieved nearly RMB40 million this year, we still see a very limited demand of this sector in the domestic market. Around 49 units out of 213 in total had been sold to the overseas market which contributed major percentage of gross margin in this series. We have achieved approximately RMB75 million sales for the year ended 31 December 2007 (2006: RMB18 million) in mini loader. The mini loader showed an obvious increase since last year which benefited from our lower-price and higher-demand policy. The combined gross margin for wheel loaders was approximately 23% for the Period.

The increase in sales volume of wheel loaders was mainly attributable to the strong market perceptions on China Longgong's brand name; the increased in the PRC's mega infrastructural projects and the increased investments in fixed asset investments (FAI) in the year 2007.

Road Rollers

The operating revenue from road rollers amounted to RMB82 million for the year ended 31 December 2007, or an increase 63% from last year. Thanks to continuous fast-growing demand in PRC market, this product was widely used in various construction fields such as expressway, airport, seaport, road embankment, dam, railway and so on.

Fork Lifts

Fork lifts increased approximately RMB59 million in sales to RMB62 million this year. The increase of 1967% in this newly series was mostly contributed by our enhanced quality of product and continuous growth in market recognition as a result.

Other Construction Machineries and Components

The Company has acquired 99.95% of the interest of Hennan Longgong Machinery Company (the "Hennan Longgong") on 31 March 2007 for a total consideration of approximately RMB98 million. The principal business of Hennan Longgong is mainly engaged in manufacturing and selling combines harvesting machines and wheel loaders. For the twelve months ended 31 December 2007 the Company has sold the harvester in 270 units with the turnover of approximately RMB16 million, representing 0.3% of the total turnover for the period. The competitive environment for harvesting machines in PRC is very keen in terms of price and quality. The Company will revise the business strategy from time to time with reference to agricultural policy in PRC.

The Company has successfully launched its in-house developed excavators in 2007. Since this is the new product for the Company and it is still in the phrase of consolidating and enhancing the technology and quality of the products. The Company expected more contributions from excavators will be in 2009.

The sales generated from components amounted to approximately RMB176 million this year, representing 3.32% of our total turnover for the period, among which, Fujian Longyan Longgong Machinery Components Co., Ltd contributed nearly 96% in approximately RMB169 million.

FINANCIAL REVIEW

The Group financed its operations from internally generated cash flow, bank borrowings and accumulated retained earnings. The Group adopts a prudent finance strategy in managing Company's financing needs. The Group believes that its cash holding, cash flow from operation, future revenue and available banking facilities will be sufficient to fund its working capital requirements.

The capital structure of the Group consists of debt, which includes the Convertible Loan Notes, net of cash and cash equivalents and attributable to equity holders of the Company, comprising issued share capital, reserves and retained earning. Convertible Loan Notes of US$287 million were issued by the company on 30 April 2007 at an issue price of US$10,000 per Convertible Loan note of US$10,000. On 13 April 2007, the company issued a total of 52,000,000 subscription shares of HK$0.10 each at a price of HK$15.15 per share.

Cash and Bank Balance

The Group maintained a sound cash position during the Period. For the year ended 31 December 2007, the Group had bank balances and cash of approximately RMB478,064,000 (31 December 2006: approximately RMB129,439,000) and pledged bank deposit of approximately RMB109,053,000 (31 December 2006: approximately RMB59,593,000) secured for banking facilities granted to the Group in respect of purchases of raw materials for manufacturing.

Compared with last year, the cash and bank balance increased about RMB349 million, which is generated as a result of net cash inflow of around RMB80 million from operating activities, net cash outflow of RMB2,016 million from investing activities, net cash inflow of RMB2,285 million from financing activities and RMB0.23 million loss of foreign exchange rate changes.

Liquidity and Financial Resources

The Group maintained a strong financial position. Total shareholders funds as at 31 December 2007 were approximately RMB2,816 million, a 58% increase from approximately RMB1,777 million as at 31 December 2007.

As at 31 December 2007, the Group had no short term bank borrowings (31 December 2006: approximately RMB266,869,000). As at 30 April 2007 the Company has issued a US$287,000,000 5-year convertible loan notes raising net additional funds of approximately RMB2,157 million. The Group's gross debt-to-equity ratio, expressed as a percentage of the total interest-bearing debts and convertible loan notes of approximately RMB1,843,920,000 of approximately shareholders' equity of RMB2,817,440,000 was approximately 65% (31 December 2006: approximately 15%). The general increase in debt was in line with the Group's strategy of expansion.

Capital Commitment

As at 31 December 2007, the Group had contracted for but not provided in the financial statements in respect of acquisition of property, plant and equipment amounted to approximately RMB266,281,000 (31 December 2006: approximately RMB98,848,000).

Contingent Liability

As at 31 December 2007, the Group had issued corporate guarantees to the extent of approximately RMB628,700,000 (31 December 2006: approximately RMB325,600,000) to the banks to secure certain banking facilities of the Group's sales agents, such banking facilities being used by the sales agents to issue bank acceptance drafts in the Group's favour for the settlement of the purchase from the group. The amount of such facilities being utilised as at 31 December 2007 amounted to approximately RMB370,290,000 (31 December 2006: approximately RMB273,210,000).

PROSPECT

Increasing the domestic market share

The group is facing an energetic environment. It is clear that the Group's products are highly demanded by the PRC market in the next ten to twenty years for following reasons: (1) Government plans to continually develop many large infrastructure projects: development of western China, west-east gas transportation, south-north water diversion, energy development and so on. (2) The purchasing capability is continually improved with the economic development. (3) The development of rural area provides a potential opportunity for the company which involved in the heavy machinery industry. Since 2006, the Group has been ranked the first place in China's wheel loader sector with market share over 20% and become one of the largest manufacturers of construction machinery in China. To maintain the competitive edge in this industry, the Group plans to further develop product line of construction machinery, road machinery, material handling equipment, agricultural machinery and so on to increase the market share. The management believe that our market share of wheel loader will maintain over 20%. Currently, the Group has established a very powerful dealer network with 200 first-level domestic dealers and 600 second-level domestic dealers. The Group has committed to review the existing system of distribution network to satisfy the needs of our customers.

Development of overseas market

For the twelve months ended 31 December 2007, we have achieved export sales of 1046 units, as compared to 266 units over the same period of last financial year. Efforts have been made to broaden our overall customers' base. It is expected that our overseas market will be the main growth pole for the revenue and profit in the company and will represent at least 20% of the total revenue by the year 2010.

Cost and quality control

Currently, nearly 50% of the components and parts are made inside the company. In today's business environment, we believe in-house production of our key components and parts is one of the key success factors to ensure our products quality and a way to offset increase in costs of other components. We are anticipating to enhance our self production rate of more than 60% in the future three years.

EXECUTIVE DIRECTORS

Mr. Li San Yim, aged 56, is the Chairman of the Board and founder of the Group. He has extensive experience in corporate management and is responsible for formulating the Group's management philosophy and business strategies. Mr. Li was appointed as a standing committee member of People's Political Consultative Conference of Fujian Province（福建省政協常務委員）, standing committee member of the People's Consultative Conference of Longyan City（龍岩市政協常務委會）, member of the Executive Committee of the All-China Federation of Industry and Commerce（中華全國工商業聯合會執行委員）, vice-chairman of the Fujian Province Federation of Industry and Commerce（福建省工商業聯合會副會長）and vice-chairman of the Longyan City Federation of Industry and Commerce（龍岩市工商業聯合會(總商會)副會長）. Mr. Li has also been accredited as one of the "Outstanding Enterprise Founders under Chinese Socialism"（優秀中國特色社會主義事業建設者）and is an honorary citizen of Longyan City, Fujian Province（福建省龍岩市榮譽市民）. Mr. Li is currently pursuing an EMBA at Fudan University in Shanghai. He is also a non-executive director of Weichai Power Co., Ltd (stock code: 2338).

Mr. Li is the husband of Ms. Ngai Ngan Ying, being a non-executive director. Save as disclosed above, Mr. Li has not held directorships in any other listed public companies in the last three years and does not have any other relationships with any directors, senior management, substantial or controlling shareholder of the Company. Mr. Li's interest in the shares within the meaning of Part XV of the Securities and futures Ordinances (Cap 571) (the "SFO") is set out on pages 22 to 23 of this annual report.

Mr. Qiu Debo, aged 44 is the Chief Executive Officer of the Group. Mr. Qiu joined the Group in August 1997. Mr. Qiu graduated from Fujian Normal University（福建師範大學）and is currently pursuing an EMBA at Shanghai Jiao Tong University（上海交通大學）. Mr. Qiu has ten years of experience in corporate management and sales and marketing. He has served as a general sales manager, deputy general manager and general manager of the Group. He also acted as general manager of Fujian Longyan Construction Machinery (Group) Limited. Prior to joining the Group, Mr. Qiu also worked for Fujian Longgang Company Limited（福建龍鋼有限責任公司）as a department head. Mr. Qiu was appointed as a qualified senior economist by the Fujian Provincial Government. He has also received the "Outstanding Youth Entrepreneur of Fujian Province Award"（福建省優秀青年企業家）.

Mr. Qiu has not held directorships in any other listed public companies in the last three years. Mr. Qiu is not connected with any other directors, senior management, substantial or controlling shareholders of the Company. He does not have any interests in the shares of the Company within the meaning of Part XV of the SFO.

Profiles of Directors and Senior Management

Mr. Luo Jianru, aged 60, Mr. Luo, is a Vice-President of the Group. Mr. Luo joined the Group in September 1998. Mr. Luo received a "second class" Jiangxi Province Science and Technology Award (江西省科學技術進步二等獎) in 1986 and a "third class" award from China Aviation Industry Company (中國航空工業總公司三等獎) in 1997 in recognition of his contribution to the development of science and technology. He is the deputy chairman of the executive committee of the Association of Industry and Commerce of Songjiang District, Shanghai (上海市松江區工商業聯合會副會長) and a member of the People's Political Consultative Conference of Songjiang District, Shanghai (上海市松江區政協委員). Mr. Luo is a graduate of Hefei University of Technology (合肥工業大學) and has 23 years of experience in corporate management and the infrastructure machinery industry. Mr. Luo has held various senior positions including the deputy general manager of Fujian Longyan Construction Machinery (Group) Limited, general manager of Longgong (Shanghai) Axle & Transmission Co., Limited and deputy general manager of the Group.

Mr. Luo has not held directorships in any other listed public companies in the last three years. Mr. Luo is not connected with any other directors, senior management, substantial or controlling shareholders of the Company. He does not have any interests in the shares of the Company within the meaning of Part XV of the SFO.

Dr. Mou Yan Qun, aged 52, joined the Company in December 2005. He is currently the vice president of the Company. Dr. Mou holds a doctorate degree in business administration and a chief financial officer qualification certificate endorsed by the Shanghai City Government. Dr. Mou has over 28 years of experience in corporate financial management and auditing. Dr. Mou is an associate member of the Institute of Financial Accountants (IFA). Prior to joining the Company, Dr. Mou worked in a leading State-owned pharmaceutical group in Shanghai where he served as the chief financial officer and head of the listing preparation office of a sub-unit and a member of the disciplinary inspection committee. Before that, he has also held the positions of chief financial officer in a State-owned enterprise and head of the Shanxi sub-branch of a State-owned bank, which was awarded the "advanced entity of integrity" under his leadership.

Dr. Mou has not held directorships in any other listed public companies in the last three years. Dr. Mou is not connected with any other directors, senior management, substantial or controlling shareholders of the Company. She does not have any interests in the shares of the Company within the meaning of Part XV of the SFO.

Mr. Chen Chao, aged 32, is currently the vice president of the Group. Mr. Chen joined the Group in July 1997, in charge of supply chain management. Mr. Chen is currently pursuing an EMBA at Fudan University in Shanghai. Mr. Chen has nine years of experience in supplies management, and has previously served as a deputy chief of the product development department at Shanghai Longgong Machinery, manager of the research and development centre and deputy general manager of Shanghai Longgong Machinery. Mr. Chen was a 5th Annual Member of the Standing Council by the Machinery Design Society of the Chinese Mechanical Engineering Society. In addition, he has also been appointed as a qualified technology and quality expert（技術質量專家）by the Technology and Quality Standing Committee（技術質量委員會）of Mechanical Engineering Technology and Quality Message Site（全國工程機械行業技術質量信息網）.

Mr. Chen has not held directorships in any other listed public companies in the last three years. Mr Chen is not connected with any other directors, senior management, substantial or controlling shareholders of the Company. He does not have any interests in the shares of the Company within the meaning of Part XV of the SFO.

Mr. Lin Zhong Ming, aged 44 joined the Company in March 2001. He is currently the General Manager of Longgong (Fujian) Machinery Company Limited and Fujian Longyan Longgong Machinery Components Company Limited, both being the wholly-owned subsidiaries of the Company. Mr. Lin has a bachelor's degree in history from Shandong University. He has five years of experience in corporate management.

Mr. Lin has not held directorships in any other listed public companies in the last three years. Mr Lin is not connected with any other directors, senior management, substantial or controlling shareholders of the Company. He does not have any interests in the shares of the Company within the meaning of Part XV of the SFO.

Dr. Zhang Hong, aged 51, is the head of R&D department of the Group. He joined the Group in October 2004. Dr. Zhang has obtained a bachelor's degree in architectural engineering from Shenyang Jianzhu University and a doctor's degree in engineering from Northeastern University. Dr. Zhang has also completed two post-doctorates in Xuzhou Construction Machinery Group Inc., and Liu Gong Group Inc.（柳工集團）. Dr. Zhang has 21 years of experience in mechanical engineering research and development. During the 1980s, he was awarded the third prize for research and development and technological advancement. Dr. Zhang has previously participated in an event held by the National Natural Science Foundation of China（國家自然科學基金）, two events of the 863 program（863計劃項目）, by conducting a number of departmental scientific research projects（部級科研項目）and hosting certain product development programmes. Dr. Zhang has also served as deputy division head in the research and development department at Liu Gong Group Inc.

Dr. Zhang has not held directorships in any other listed public companies in the last three years. Dr. Zhang is not connected with any other directors, senior management, substantial or controlling shareholders of the Company. He does not have any interests in the shares of the Company within the meaning of Part XV of the SFO.

NON-EXECUTIVE DIRECTORS

Ms. Ngai Ngan Ying, aged 51, is the Vice-Chairman of the Group and was appointed as a non-executive director of the Group in May 2004. Ms. Ngai is also one of the founders of the Group. Ms. Ngai is a standing committee member of the People's Political Consultative Conference of Xinluo District, Fujian Province（龍岩市新羅區政協常務委員）.

Ms. Ngai is the wife of Mr. Li San Yim, being a director. Save as disclosed above, Ms. Ngai has not held directorships in any other listed public companies in the last three years and does not have any other relationships with any directors, senior management, substantial or controlling shareholder of the Company. Ms. Ngai's interest in the shares within the meaning of Part XV of the SFO is set out on pages 22 to 23 of this annual report.

Ms. Fang Deqin, aged 44, was appointed as a non-executive Director in 16 March 2007. Ms. Fang is the deputy director of the strategic and governance committee of the Board. She joined the Company in November 2006. Ms. Fang received a Bachelor Degree in Economics from Xiamen University in 1984 and has been admitted to the EMBA program of Xiamen University since September 2005. She was the financial controller and senior accountant of Xiamen Aviation Industry Company Limited and the deputy general manager of strategic planning division of Xiamen Temao Corporation. She has 15 years of experience in corporate finance, investment, mergers and acquisitions and corporate governance.

Ms. Fang has not held directorships in any other listed public companies in the last three years. Ms. Fang is not connected with any other directors, senior management, substantial or controlling shareholders of the Company. She does not have any interests in the shares of the Company within the meaning of Part XV of the SFO.

INDEPENDENT NON-EXECUTIVE DIRECTORS

Prof Yang Hongqi, aged 76, was appointed as an independent non-executive director in June 2005. Since 1996, Mr. Yang has been the president of the China Construction Machinery Industry United Society（中國工程機械工業聯合會）, a council member of China Federation of Industry and Economy（中國工業經濟聯合會）and a council member of China Machinery Industry United Society（中國機械工業聯合會）. Professor Yang is a qualified senior engineer. He is also a visiting professor of Tongji University（同濟大學）and Jilin University（吉林大學）. Professor Yang is currently an independent non-executive director of Xuan Hua Construction Machinery Co. Ltd. and Ding Sheng Tian Gong Construction Machinery Co. Ltd.. The shares of these two companies are listed on the Shanghai Stock Exchange.

Professor Yang has not held directorships in any other listed public companies in the last three years. Professor Yang is not connected with any other directors, senior management, substantial or controlling shareholders of the Company. He does not have any interests in the shares of the Company within the meaning of Part XV of the SFO.

Dr. Qian Shizheng, aged 55, was appointed as an independent non-executive director in February 2005. Dr. Qian is the chief financial officer of Shanghai Industrial Investment (Holdings) Limited. He holds a doctorate degree in management from Fudan University and has previously worked for Fudan University as an Associate Professor of the Department of Accountancy. Dr. Qian is currently an executive director of Shanghai Industrial Holdings Limited (stock code: 363). He has over 22 years of experience in the finance and accounting fields.

Save as disclosed above, Dr. Qian has not held directorships in any other listed public companies in the last three years. Dr. Qian is not connected with any other directors, senior management, substantial or controlling shareholders of the Company. He does not have any interests in the shares of the Company within the meaning of Part XV of the SFO.

Mr. Lo Peter, aged 52, was appointed as an independent non-executive Director in February 2005. Mr. Lo is a director of China Enterprise Capital Limited and the chairman and an executive director of Wealthmark International (Holdings) Limited (stock code: 0039). Mr. Lo was the chief executive officer and an executive director of Harbin Brewery Group Limited (former stock code: 249), a company which was awarded "Best Small Cap IPO 2002" (FinanceAsia) and "Best Small Cap Company in China 2003" (Asiamoney). Mr. Lo received the "Directors of the Year 2004" award from the Hong Kong Institute of Directors. He is currently a non-executive director of Harbin Brewery as well as a consultant to Anheuser Busch International. From 1994 to 1997, Mr. Lo was the deputy general manager and a director of Acheng Relay Company Limited (stock code: 000922), a company listed on the Shenzhen Stock Exchange. In 1982, Mr. Lo received a bachelor's degree in Mathematical Economics and Econometrics from the London School of Economics and Political Science. He has held a number of senior management positions in the Hong Kong offices of several international companies and has more than 18 years of experience in operating businesses in the PRC. Mr. Lo is a member of the China People's Consultative Conference of Harbin City, the PRC.

Save as disclosed above, Mr. Lo has not held directorships in any other listed public companies in the last three years. Mr. Lo is not connected with any other directors, senior management, substantial or controlling shareholders of the Company. He does not have any interests in the shares of the Company within the meaning of Part XV of the SFO.

The details of the directors emoluments and directors fees are set out in note 11 to the financial statements on pages 61 to 62 of this annual report.

SENIOR MANAGEMENT

Mr. Zhao Jian, aged 47, is currently a Deputy General Manager of Longgong (Shanghai) Axle & Transmission Company Limited ("Shanghai Qiaoxiang"). Mr. Zhao joined the Group in October 2001. He has over 29 years of experience in gears manufacturing industry and has worked for Sichuan Gear Factory（四川齒輪廠）from 1978 to 2001. Mr. Zhao is primarily responsible for Shanghai Qiaoxiang's operations in production, supply and sales. In July 1998, he obtained a bachelor's degree in economics management from Sichuan United University（四川聯合大學）.

Mr. Li Shengrui, aged 40, is currently the General Sales Manager of the components sales division of the Group. Mr. Li joined the Group in August 2002. He obtained a bachelor's degree in chemical equipment and machinery from Tianjin Light Industry College in 1989 and a master's degree in business administration from Beijing Institute of Technology University（北京理工大學）in 2003. He worked as a senior engineer at Huagong Jixie Company and has over 15 years of experience in operations and administrative management in the manufacturing industry.

Directors' Report

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

PRINCIPAL ACTIVITIES

The Company acts as an investment holding company. The activities of its principal subsidiaries are set out in note 36 to the consolidated financial statements.

RESULTS AND APPROPRIATIONS

The results of the Group for the year ended 31 December 2007 are set out in the consolidated income statement on page 38 of the annual report.

An interim dividend of HK$0.12 (Equivalent to RMB0.12) per share amounting to HK$131 million (Equivalent to RMB126 million) was paid to the shareholders during the year. The directors now recommend the payment of a final dividend of HK$0.12 (Equivalent to RMB0.11) per share to the shareholders on the register of member on 11 April 2008, amounting to approximately HK$131 million (Equivalent to RMB112 million), and the retention of the remaining profit for the year of approximately RMB517 million. It is expected that the dividend paid out as a result of the operation of 2007 amounted to HK$0.24 per share, or approximately HK$261 million (Equivalent to RMB224 million) in total.

PROPERTY, PLANT AND EQUIPMENT

The Group continued its plant replacement policy and expended RMB488 million on new plant and machinery during the year.

Details of the movement during the year in property, plant and equipment of the Group are set out in note 15 to the consolidated financial statements.

SUMMARY FINANCIAL INFORMATION

A summary of the published results and assets, liabilities and minority interest of the Group for the last five financial years is set out on page 91 to 92 of the annual report. This summary does not form part of the audited consolidated financial statements.

SHARE CAPITAL

Details of movements during the year in the share capital of the Company are set out in note 26 to the consolidated financial statements.

DISTRIBUTABLE RESERVES OF THE COMPANY

Movements in the reserves of the Group during the year are set out on page 41 of the annual report.

The Company's reserves available for distribution to shareholders comprise the share premium, contributed surplus and accumulated profits which in aggregate amounted to approximately RMB806 million as at 31 December 2007 (2006: RMB537 million). Under the Companies Law (Revised) Chapter 22 of the Cayman Islands, the share premium of the Company is available for paying distributions or dividends to shareholders subject to the provisions of its Memorandum and Articles of Association and provided that immediately following the distribution or dividend the Company is able to pay its debts as they fall due in the ordinary course of business. In accordance with the Company's Article of Association, dividends shall be distributed out of the accumulated profits or other reserves, including the share premium account, of the Company.

DIRECTORS

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

Executive directors:

Li San Yim *(Chairman)*	(appointed on 11 May 2004)
Qiu Debo *(Chief Executive Officer)*	(appointed on 17 February 2005)
Luo Jianru	(appointed on 17 February 2005)
Mou Yan Qun	(appointed on 24 October 2006)
Chen Chao	(appointed on 17 February 2005)
Zhu Yong Sheng	(appointed on 17 February 2005 and resigned on 16 March 2007)
Zhang Hong	(appointed on 17 February 2005)
Lin Zhong Ming	(appointed on 24 October 2006)

Non-executive directors:

Ngai Ngan Ying	(appointed on 11 May 2004)
Fang Deqin	(appointed on 16 March 2007)

Independent non-executive directors:

Yang Hongqi	(appointed on 13 June 2005)
Qian Shizheng	(appointed on 17 February 2005)
Lo Peter	(appointed on 17 February 2005)

Pursuant to the Articles of Association, at each annual general meeting one-third of the directors for the time being (or if their number is not a multiple of three, the number nearest to but not less than one-third) shall retire from office by rotation provided that every director shall be subject to retirement at least once every three years. Each of Mr. Li San Yim, Mr. Qiu Debo, Mr. Luo Jianru, Dr. Mou Yan Qun, Mr. Chen Chao, Dr. Zhang Hong, Mr. Lin Zhong Ming, Ms. Ngai Ngan Ying, Ms. Fang Deqin, Dr. Qian Shizheng, shall retire at the annual general meeting and all offer themselves for re-election at the annual general meeting. Dr. Zhang Hong, Professor Yang Hongqi and Mr. Lo Peter would retire at the forthcoming annual general meeting, be eligible, will not offer himself for re-election.

The biographical details of the directors are set out on pages 14 to 19 of this annual report.

DIRECTORS' SERVICE CONTRACTS

No director proposed for re-election at the forthcoming annual general meeting has a service contract which is not determinable by the Group within one year without payment of compensation (other than statutory compensation).

DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS IN SHARES AND UNDERLYING SHARES

At 31 December 2007, the interests of the directors and their associates in the 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, or as otherwise notified to the Company and the Stock Exchange of Hong Kong Limited (the "Stock Exchange") pursuant to the Model Code for Securities Transactions by Directors of Listed Companies ("Model Code"), were as follows:

(1) Long positions in shares and underlying shares of the Company

Ordinary shares of HK$0.10 each of the Company

Name of directors	Capacity	Number of shares held	Percentage of the issued share capital of the Company
Li San Yim and Ngai Ngan Ying *(Note 1)*	Held by controlled corporation *(Note 2)*	328,014,690	30.12%
Li San Yim and Ngai Ngan Ying *(Note 1)*	Beneficial owner	241,332,690	22.16%
		569,347,380	52.28%

Note 1: Mr. Li San Yim and Ms. Ngai Ngan Ying are husband and wife to each other and are deemed to be interested in each other's interest.

Note 2: These shares were held through China Longgong Group Holdings Limited, a company that is wholly owned by Mr. Li San Yim and Ms. Ngai Ngan Ying as to 55% and 45% respectively, which is the registered shareholder of these 328,014,690 shares.

(2) Long positions in shares of the associated corporation of the Company, Longgong (Shanghai) Machinery Company Limited

Ordinary shares of HK$0.10 each of the Company

Name of directors	Capacity	Register shares Capital	Percentage of the issued share capital of the Company
Li San Yim	Corporate *(Note)*	480,000	0.11%
Ngai Ngan Ying	Corporate *(Note)*	480,000	0.11%

Note: The 0.11% interest of Longgong (Shanghai) Machinery Company Limited is held by Shanghai Longgong Machinery limited, which is owned by Mr. Li and Mrs. Li as to 39.5% and 60.5% respectively.

Save as disclosed above, as at 31 December 2007, none of the directors, chief executives of the Company or any of their associates, had registered any interests or short positions in any shares and underlying shares of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) that was required to be recorded and kept in the register by the Company in accordance with the Section 352 of the SFO, or any interests required to be notified to the Company and the Stock Exchange pursuant to the Model Code.

ARRANGEMENTS TO PURCHASE SHARES OR DEBENTURES

At no time during the year was the Company, its holding companies, or any of its subsidiaries or fellow 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.

DIRECTORS' INTERESTS IN CONTRACTS OF SIGNIFICANCE

No contract of significance, to which the Company, its holding companies, subsidiaries or fellow subsidiaries was a party and in which a director 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.

SUBSTANTIAL SHAREHOLDERS

As at 31 December 2007, the register of substantial shareholders maintained by the Company pursuant to Section 336 of the SFO shows that other than the interests disclosed above in respect of directors, the following shareholders had notified the Company of the relevant interests in the issued share capital of the Company.

Long positions

Ordinary shares of HK$0.10 each of the Company

Name of shareholder	Capacity	Number of ordinary shares interested	Percentage of the issued share capital of the Company
China Longgong Group Holdings Limited *(Note 1)*	Beneficial owner	328,014,690	30.12%
Horseman Global Fund Limited	Beneficial owner	72,540,000	6.67%
Cazenove Asia Limited	Beneficial owner	60,414,000	5.55%
JPMorgan Cazenove Limited *(Note 2)*	Held by controlled corporation	60,414,000	5.55%
JPMorgan Cazenove Holdings *(Note 3)*	Held by controlled corporation	60,414,000	5.55%
Cazenove Holdings Limited *(Note 4)*	Held by controlled corporation	60,414,000	5.55%

Note 1: Mr. Li and Mrs. Li own 55% and 45%, respectively, of the issued shares in the share capital of China Longgong Group Holdings Limited.

Note 2: These shares were held through Cazenove Asia Limited, a wholly owned subsidiary of JPMorgan Cazenove Limited.

Note 3: These shares were held through Cazenove Asia Limited, a wholly owned subsidiary of JPMorgan Cazenove Limited, which is in return wholly owned by JPMorgan Cazenove Holdings.

Note 4: These shares were held through Cazenove Asia Limited, a wholly owned subsidiary of JPMorgan Cazenove Limited, which is in return wholly owned by JPMorgan Cazenove Holdings. JPMorgan Cazenove Holdings is owned by Cazenove Holdings Limited as to 49.99%.

Saved as disclosed above, as at 31 December 2007, the Company has not been notified of any other interests or short positions in the issued share capital of the Company as recorded and kept under Section 336 of the SFO as having an interest of 5% or more in the issued share capital of the Company.

APPOINTMENT OF 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 Rules Governing the Listing Securities on the Stock Exchange of Hong Kong Limited. The Company considers all of the independent non-executive directors are independent.

PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S LISTED SECURITIES

On 11 April 2007, the Company placed out 52,000,000 ordinary shares of HK$0.10 each of the Company at a price of HK$15.15 (Equivalent to RMB14.83) per share through a placing agent, Morgan Stanley & Co. International Limited, to not less than six independent professional, institutional and/or individual investors, who are not connected persons (as defined in the Listing Rules) of the Company and are independent of and not connected with the Company and its connected persons (as defined in the Listing Rules). The Placing price of HK$15.15 per share represented a discount of approximately 7.17% to the closing price of HK$16.32 per share as quoted on the Hong Kong Stock Exchange on 4 April 2007 being the last full trading day prior to the suspension in trading of shares on the Hong Kong Stock Exchange. Upon completion of the placing, the gross proceeds of the placing were approximately HK$788 million (Equivalent to RMB776 million) and the net proceeds from the placing of approximately HK$770 million (Equivalent to RMB759 million). Approximately HK$600 million of the net proceeds from the placing were used as purchasing and installation of production equipment and construction and installation of production plant and facilities for the expansion of the Group's production capacity for wheel loaders, road rollers, excavators, fork lifts, agricultural machinery and other infrastructure machinery. Approximately HK$100 million were used for upgrading the Group's research and development capabilities for the development of new models or series of infrastructure machinery. Approximately HK$70 million were used as the Group's general working capital requirement.

The Company has not redeemed any of its shares during the Period. Saved as disclosed above, neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's listed securities during the twelve months ended 31 December 2007.

EMOLUMENT POLICY

The emolument policy of the employees of the Group is set up by the Human Resources Division 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 Company's operating results, individual performance and comparable market statistics.

MAJOR CUSTOMERS AND SUPPLIERS

The five largest customers accounted for approximately 22% (2006: 23%) of the Group's total turnover for the year. The five largest suppliers accounted for approximately 34% (2006: 38%) of the Group's total purchases for the year and the largest supplier accounted for approximately 16% (2006: 18%) of the total purchases.

At no time during the year did a director, 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 issued share capital) have interest in any of the Group's five largest suppliers or customers.

CONNECTED TRANSACTIONS

The Company entered into a Master Purchase Agreement since 14 November 2007 with LongYan City Jinlong Machinery Company Limited ("Jinlong"), a company incorporated in the PRC with limited liability and owned as to approximately 82.67% by Mr. Ngai Ngan Qin, a brother of Ms. Ngai Ngan Ying, the non-executive director of the Company, pursuant to which the Group will purchase the parts from Jinlong from 14 November 2007 and ending on 31 December 2009. The transaction contemplated under the Master Purchase Agreement constitute continuing connected transactions for the Company under Rule 14A.34 of the Listing Rules and are exempt from the independent shareholders' approval requirement under the Listing Rules by virtue of the fact that each of the relevant percentage ratios (other than the profit ratio) in respect of the purchase amount is less than 2.5% on an annual basis. For the year ended 31 December 2007, the Company purchased the parts approximately RMB6,103,000 from Jinlong.

The independent non-executive directors confirm that the transaction has been entered into by the Company in the ordinary course of its business, on normal commercial terms, and in accordance with the terms of the agreement governing such transactions that are fair and reasonable and in the interests of the shareholders of the Company as a whole.

POST BALANCE SHEET EVENTS

Details of significant events occurring after the balance sheet date are set out in note 38 to the consolidated financial statements.

PRE-EMPTIVE RIGHTS

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

SUFFICIENCY OF PUBLIC FLOAT

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

AUDITORS

A resolution will be submitted to the annual general meeting of the Company to re-appoint Messrs. Deloitte Touche Tohmatsu as auditor of the Company.

On behalf of the Board

Mr. Li San Yim
CHAIRMAN

Shanghai, 25 March 2008

CORPORATE GOVERNANCE PRINCIPLES

To become a company which enjoys the continuously growing trust of its shareholders and all other stakeholders by maximizing its corporate value, the Company is working to improve its management efficiency, advocate corporate ethics and ensure sound management on a Group-wide basis.

To further improve the transparency of the management to shareholders and investors, the Company will disclose information in a fair and timely manner and actively engage in investor relations activities by holding meetings in the PRC and Hong Kong to explain its business results and operations.

The Company will endeavor to comply with the laws and regulations of the place of operation of the Company and the requirements and guidelines of the Stock Exchange of Hong Kong Limited and local regulatory bodies.

COMPLIANCE WITH THE CODE ON CORPORATE GOVERNANCE PRACTICES (THE "CODE")

In the opinion of the directors, the Company had during the year ended 31 December complied with all the applicable code provisions of the Code as set out in Appendix 14 to the Listing Rules

COMPLIANCE WITH THE MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS OF THE COMPANY

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 to the Listing Rules (the "Model Code") as the code of conduct regarding directors' securities transactions. Specific enquiry has been made to all directors, who have confirmed that they had complied with the required standard set out in the Model Code for the year ended 31 December 2007.

The Board will continue to review and foster its own Code of Corporate Governance Practices from time to time. The Company will seek to improve its management and raise its control level to enhance the Company's competitiveness and operating efficiency, to ensure its sustainable development and to generate greater returns for the shareholders.

CORPORATE GOVERNANCE STRUCTURE

The Board is responsible for the management of the Company with acting in the interest of the Company and its shareholders as its principle and is accountable to the shareholders for the assets and resources entrusted to them by the shareholders. The key responsibilities of the Board include the formulation of the Company's long-term development strategies and operating direction, setting of the management targets and supervising members of the management in implementing matters resolved by the Board and performing their duties. Under the Board, there are currently 3 board committees, namely Audit Committee, Executive Committee and Remuneration Committee. All these committees perform their distinct roles in accordance with their respective terms of reference.

BOARD OF DIRECTORS

The Board currently comprises 12 directors, including 7 executive directors, 2 non-executive directors and 3 independent non-executive directors. Each director has a duty to act in good faith in the best interests of the Company. The directors are aware of their collective and individual responsibilities to the shareholders.

Pursuant to Rules 3.10 (1) and (2) of the Listing Rules, Dr. Qian Shizheng, one of the independent non-executive directors, has specialized in related financial management expertise.

A written confirmation was received from each of the independent non-executive directors, Professor Yang Hongqi, Dr. Qian Shizheng and Mr. Lo Peter, confirming their independence pursuant to Rile 3.13 of the Listing Rules.

All members of the Board are of relevant professional background with plenty of experience who can have a positive and motivational effect in raising the development and management level of the Company. In addition, the Company also separates the duties of the chairman of the Board and the chief executive officer. The two positions are held by different directors with the aim of reinforcing the independence of the Board and the management. The chairman of the Board is mainly responsible for the leadership and effective running of the Board, and making key strategic decisions for the Company. The chief executive officer is mainly responsible for the

daily operation and management of the Group's business, and implementation of the approved strategies in achieving the overall Company's objectives.

Included in the composition of the Board are two family members: the chairman of the Board, Mr. Li San Yim and his wife Ms. Ngai Ngan Ying, one of the non-executive directors of the Company are subject to retirement by rotation and offer themselves for re-election in the same manner as the executive directors. The Company will review the composition of the Board regularly to ensure the Board possesses the appropriate and necessary expertise, skills and experience to meet the needs of the Group's business.

For detailed information on the members of the directors and senior management, please refer to the section headed "Profiles of Directors and Senior Management" from pages 14 to 19 of this annual report.

For the year ended 31 December 2007, the Board held 4 meetings. Notice of at least 14 days is given for a regular Board meeting to give all directors an opportunity to attend. The following table shows the attendance records of individual directors at the meetings of the Board and the attendance records of individual members at the meetings of the respective Board Committees held for the year ended 31 December 2007:

Number of meetings attended/Number of

	Meetings held for the year ended 31 December 2007			
Name of directors	**Board**	**Audit Committee**	**Executive Committee**	**Remuneration Committee**
Executive Directors				
Mr. Li San Yim *(Chairman)*	4/4	N/A	2/2	N/A
Mr. Qiu Debo *(Chief Executive Officer)*	4/4	N/A	2/2	N/A
Mr. Luo Jianru	4/4	N/A	2/2	N/A
Dr. Mou Yan Qun	2/4	N/A	2/2	N/A
Mr. Chen Chao	4/4	N/A	2/2	N/A
Mr. Zhu Yongsheng *(Note 1)*	1/4	N/A	1/2	N/A
Mr. Lin Zhong Ming	2/4	N/A	2/2	N/A
Dr. Zhang Hong	4/4	N/A	2/2	N/A
Non-Executive Directors				
Ms. Ngai Ngan Ying	4/4	N/A	N/A	1/1
Mr. Zhu Mantian Myron *(Note 2)*	2/4	2/2	N/A	N/A
Ms Fang Deqin *(Note 2)*	1/4	1/2	N/A	N/A
Independent Non-Executive Directors				
Professor. Yang Hongqi	4/4	N/A	N/A	N/A
Dr. Qian Shizheng	4/4	2/2	N/A	1/1
Mr. Lo Peter	4/4	2/2	N/A	1/1

(Note 1) Mr. Zhu Yongsheng has resigned on 16 March 2007 due to personal reasons

(Note 2) Mr. Zhu Mantian Myron has resigned on 16 March 2007 due to personal reasons and Ms. Fang Deqin was appointed on that day

N/A Not Applicable

BOARD COMMITTEES

As part of good corporate governance practice, the Board has delegated certain authorities to a number of committees. These committees include representation from non-executive and independent non-executive directors whose objective views are important in the execution of the controls expected in a listed company.

EXECUTIVE COMMITTEE

The executive committee is responsible for recommending general policy and advising direction for the Company to the Board and as such, it interacts with the audit and remuneration committees in respect of their policy submissions. Since, the Company does not have a separate nomination committee, the nomination and appointment of new directors is a function of the executive committee. The executive committee reviews on a regular basis the need to appoint directors with specific business acumen in appropriate sectors that would further enhance the present skill set, or add expertise in a developing business sector and assess the independence of the Company's independent non-executive directors.

The Committee currently consists of seven executive directors, namely Mr. Li San Yim, Mr. Qiu Debo, Mr. Luo Jianru, Dr. Mou Yan Qun, Mr. Chen Chao, Mr. Lin Zhong Ming and Dr. Mr. Zhang Hong. Mr. Qiu Debo is elected as the chairman.

AUDIT COMMITTEE

The audit committee currently comprises 1 non-executive director, namely Ms. Fang Deqin, and 2 independent non executive directors, namely Dr. Qian Shizheng and Mr. Lo Peter. Dr. Qian Shizheng was elected as chairman.

The primary duties and responsibilities of the audit committee is to assist the Board in fulfilling its oversight responsibilities of the Company's compliance with legal and regulatory requirements with respect to financial matters and those required by the Listing Rules of the Stock Exchange of Hong Kong Limited and other regulatory bodies.

The functions of audit committee include but not limited to the following:

- Serve as an independent party to monitor the integrity of the Company's financial statements, reporting process and internal control mechanism;
- Review and assess audit efforts of the Company's independent auditors; directly appointing, retaining, compensating, evaluating and terminating the Company's independent auditors;
- Review the qualifications, independence and performance of the independent auditor and
- Provide an intermediary of open communication among the Company's independent auditors, financial and senior management and board of directors.

The audit committee has reviewed the Company's interim and final results for the year of 2007.

AUDITOR'S REMUNERATION

For the year ended 31 December 2007, Messrs. Deloitte Touche Tohmatsu, the external auditors of the Group received approximately RMB2.4 million (2006: approximately RMB 2.2 million) for audit and review services.

REMUNERATION COMMITTEE

The remuneration committee currently consists of 1 non-executive director, namely Ms. Ngai Ngan Ying, and 2 independent non-executive directors, namely Dr. Qian Shizheng and Mr. Lo Peter. The primary duties and responsibilities of the remuneration committee is to advise the Board on the remuneration policy, review and determine the remuneration of all executive directors and senior management with reference to the Company's objectives from time to time.

In addition, the remuneration committee needs to review other human resources issues, including group-wide remuneration policies and the development of human resources. No director plays a part in any discussions about his own remuneration for the year ended 31 December 2007.

INTERNAL CONTROLS

It is the Board's responsibility for developing and maintaining an effective internal control system of the Company to protect shareholders' interest and to safeguard the Group' property and assets by reviewing major control procedures for financial, compliance and enterprise risk management. However, such a system was designed to manage various risks of the Group within certain acceptable risk level, rather than the complete elimination of the risk of failure to achieve the business objectives of the Group. Therefore it can provide reasonable but not absolute assurance against material misstatement of the management as well as financial information and records, or financial fraud or losses.

The Company continually reviews and enhances its business and operational activities to identify areas of significant business risks and take necessary measures to control and mitigate these risks.

Internal Audit

The Company enhances the independence of internal audit department since the first half of year 2006 for the purpose of reviewing, in a more effective manner, the company wide systems of internal control. The department was monitored and held responsible to the Board and as well as to the audit committee. The internal audit department carries out inspection, monitoring and evaluation of the Company's financial information disclosures, operations and internal control procedures on a regular or in ad hoc basis, with a view to ensuring transparency in information disclosures, operational efficiencies and effectiveness of the corporate control regime.

Independent evaluations and recommendations is the core element in the department, the internal audit staff are authorized to access any information relating to the Company and to make enquiries to staff concerned. Besides that, internal audit department would assist external auditors during an external audit by providing pertinent financial information in a timely manner.

Strengthening Systems of Internal Controls

Effective from 1 January 2006, the Company has fully adopted a comprehensive budget management and a level-based performance appraisal management, so as to monitor the operations of the Company according to the budget and adjust operating objectives and management initiatives in a timely manner.

For a more scientific and effective human resources management, the Company has, from 1 January 2006, carried out in-depth analysis on each position for a clear and reasonable definition of job missions, duties, skills requirements and key performance targets.

Key internal controls of the Company include

- Establishment of policies, rules, procedures and approval limits for key financial and personnel matters, and the rules to the delegation of authorities;
- Internal documentation of key processes and procedures;
- Maintenance of proper accounting records;
- Safeguarding the Company's assets;
- Ensuring reliability of financial information;
- Ensuring compliance with appropriate legislation and regulations; and
- Having qualified and experienced persons take charge of important functions.

INVESTOR RELATIONS

Information Disclosures and Investor Relations Management

The Company strives to ensure that all shareholders and investors are able to fully exercise their rights on an equal basis. The Company regards effective communication as the core of investor relations, and believes that a high transparent organization and promptly dissemination of information to our investors are important ingredients to the success of a company. A designated team including an executive director from senior management, the company secretary and delegates from the Company's financial management department was set up in 2005 managing information disclosures and investor relations to ensure that information disclosures are open, fair and impartial. It helps investors improve their understanding of, and identification with, the Company through full disclosure of information to them, and seeks to strengthen communication and interaction with them through various means to enhance the Company's transparency.

During the year of 2007, the Company maintained its good relationship with the international capital markets through the announcement of annual results, global or international investors' forums, non-deal roadshows and company visits. Throughout the year, the Company has received nearly 300 visits from international investors. The other major investor relations events took place in the year of 2007 include:

Date	Major Events
March 2007	Publication of 2006 Annual Report and press conference
March 2007	Organized road shows with Cazenove in places including Hong Kong, Singapore and London
May 2007	Participated in the Investors' Forum held by CLSA at Grand Hyatt Hotel, Shanghai
July 2007	Publication of 2007 Annual Report and press conference
September 2007	Organized road shows with Cazenove in places including Hong Kong, Singapore, Holland and London
November 2007	Participated in the annual conference held by Morgan Stanley in Singapore

Other Stakeholders' interests

While dedicated to maximizing shareholders' value, the Company is also committed to its customers, in terms of provision of quality products and services, and to the staff, by making available opportunities to them for career development. The Company had a strong commitment to shareholders, investors, staff, customers, suppliers and the community at large and always acting in good faith and with integrity. The Company believed that the sustainable development of a company cannot be achieved in isolation from a healthy environment. The Company pledges to contribute to the community while pursuing profit growth, by managing the business within the bounds of relevant laws and environmental regulations, improving standard of corporate governance and enhancing corporate transparency and actively participating in social charities and contribute to the local social development.

CORPORATE SOCIAL RESPONSIBILITY

The Group also dedicates itself to contributing to the society and serving the community in the midst of its rapid development. Taking into consideration the actual situation in the place where it operates, the subsidiaries of the Group take part in local social services. Our involvement in community service helps to build a good image of the Company and contribute to the local social development.

For the year of 2007, the Group has donated approximately RMB1,015,000 in education subsidies; compensations for misfortune and charity donations.

In the future, we will continue to support and participate in diversified social and community activities. To promote the relationship between the Company and investors and to enhance the transparency of the operation of the enterprise, the Company will communicate information regarding the Company's business development through various channels when appropriate.

TO THE SHAREHOLDERS OF CHINA INFRASTRUCTURE MACHINERY HOLDINGS LIMITED
(Incorporated in the Cayman Islands with limited liability)

We have audited the consolidated financial statements of China Infrastructure Machinery Holdings Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") set out on pages 38 to 90, which comprise the consolidated balance sheet as at 31 December 2007, and 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.

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 31 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
26 March 2008

Consolidated Income Statement

For the year ended 31 December 2007

	Notes	2007 RMB'000	2006 RMB'000
Turnover	*5*	**5,308,624**	3,717,939
Cost of goods sold		**(4,117,055)**	(2,760,868)
Gross profit		**1,191,569**	957,071
Interest income	*6*	**71,527**	2,970
Other income		**29,003**	13,953
Other gains and losses	*7*	**37,588**	(5,531)
Administrative expenses		**(178,088)**	(130,032)
Distribution and selling expenses		**(359,732)**	(198,238)
Other expenses		**(1,956)**	(3,781)
Finance costs	*8*	**(111,614)**	(20,336)
Discount on acquisition of a subsidiary	*31*	**5,833**	–
Profit before tax	*10*	**684,130**	616,076
Income tax (expense) credit	*9*	**(54,681)**	9,272
Profit for the year		**629,449**	625,348
Attributable to:			
Equity holders of the parent		**629,616**	624,154
Minority interests		**(167)**	1,194
		629,449	625,348
Dividends paid	*13*	**349,155**	–
Earnings per share – basic (RMB)	*14*	**0.59**	0.60
Earnings per share – diluted (RMB)	*14*	**0.54**	0.60

Consolidated Balance Sheet

As at 31 December 2007

	Notes	2007 RMB'000	2006 RMB'000
Non-current assets			
Property, plant and equipment	*15*	**1,116,542**	700,093
Lease premium for land – Non current portion	*16*	**202,616**	146,212
Finance lease receivables	*17*	**35,120**	–
Deferred tax assets	*19*	**65,791**	24,731
		1,420,069	871,036
Current assets			
Lease premium for land – Current portion	*16*	**4,402**	2,984
Inventories	*20*	**1,491,346**	952,769
Finance lease receivables	*17*	**303,679**	–
Trade receivables	*21*	**350,171**	252,622
Bill receivables	*21*	**522,362**	427,174
Other receivables and prepayments	*21*	**391,240**	146,191
Loan receivables from financial institutions	*18*	**1,450,000**	–
Pledged bank deposits	*22*	**109,053**	59,593
Bank balances and cash	*22*	**478,064**	129,439
		5,100,317	1,970,772
Current liabilities			
Trade payables	*23*	**697,510**	332,422
Bill payables	*23*	**387,925**	227,059
Other payables and accruals	*23*	**259,140**	180,258
Provisions	*24*	**128,296**	27,101
Amounts due to related parties	*25*	**12,875**	7,393
Tax payable		**45,585**	22,727
Bank borrowings		**–**	266,869
Derivative financial instruments	*28*	**305,461**	–
		1,836,792	1,063,829
Net current assets		**3,263,525**	906,943
		4,683,594	1,777,979

Consolidated Balance Sheet

As at 31 December 2007

	Notes	2007 RMB'000	2006 RMB'000
Capital and reserves			
Share capital	*26*	**113,009**	107,886
Reserves	*27*	**2,703,478**	1,669,028
Equity attributable to equity holders of the parent		**2,816,487**	1,776,914
Minority interest		**953**	1,065
Total equity		**2,817,440**	1,777,979
Non-current liabilities			
Long term payables	*17*	**16,563**	
Convertible loan notes	*28*	**1,843,920**	–
Deferred tax liability	*19*	**5,671**	–
		1,866,154	–
		4,683,594	1,777,979

The consolidated financial statements on pages 38 to 40 were approved and authorised for issue by the Board of Directors on 25 March 2008 and are signed on its behalf by:

Li San Yim	**Mou Yan Qun**
Director	*Director*

Consolidated Statement of Changes in Equity

For the year ended 31 December 2007

	Attributable to equity holders of the parent							
	Share capital	**Share premium**	**Special reserve**	**Non-distributable reserve**	**Accumulated profits**	**Total**	**Minority interest**	**Total**
	RMB'000	RMB'000	RMB'000 (*Note 27*)	RMB'000 (*Note 27*)	RMB'000	RMB'000	RMB'000	RMB'000
At 1 January 2006	107,886	455,206	355,335	54,639	179,694	1,152,760	1,719	1,154,479
Profit for the year and total recognised income	–	–	–	–	624,154	624,154	1,194	625,348
Transfer	–	–	–	101,430	(101,430)	–	–	–
Dividends paid to minority interest	–	–	–	–	–	–	(1,848)	(1,848)
At 31 December 2006	107,886	455,206	355,335	156,069	702,418	1,776,914	1,065	1,777,979
Profit for the year and total recognised income	–	–	–	–	629,616	629,616	(167)	629,449
Dividends paid	–	–	–	–	(349,155)	(349,155)	–	(349,155)
Share issued	5,123	771,002	–	–	–	776,125	–	776,125
Transaction costs attributable to issue of shares	–	(17,013)	–	–	–	(17,013)	–	(17,013)
Transfer	–	–	–	114,652	(114,652)	–	–	–
Acquisition of a subsidiary (*Note 31*)	–	–	–	–	–	–	55	55
At 31 December 2007	113,009	1,209,195	355,335	270,721	868,227	2,816,487	953	2,817,440

Consolidated Cash Flow Statement

For the year ended 31 December 2007

	Note	2007 RMB'000	2006 RMB'000
OPERATING ACTIVITIES			
Profit before taxation		**684,130**	616,076
Adjustments for:			
Discount on acquisition	*31*	**(5,833)**	–
Interest income		**(71,527)**	(2,970)
Finance costs		**111,614**	20,336
Allowance for bad and doubtful debts		**20,779**	14,069
Allowance for inventories		**3,094**	4,653
Loss on disposal of property, plant and equipment		**1,123**	5,531
Depreciation of property, plant and equipment		**61,527**	32,548
Amortisation of lease premium for land		**3,805**	3,416
Exchange gain		**(98,787)**	–
Gain on fair value changes of derivative financial instruments		**(5,053)**	–
Operating cash flows before movements in working capital		**704,872**	693,659
Increase in inventories		**(514,636)**	(253,416)
Increase in trade, bill and other receivables		**(440,936)**	(428,033)
Increase in finance lease receivables		**(338,799)**	–
Increase in trade, bill and other payables		**563,605**	336,167
Increase in provisions		**101,195**	202
Increase (decrease) in amounts due to related parties		**5,859**	(541)
Increase in long term payables		**16,563**	–
Cash generated from operations		**97,723**	348,038
Interest received		**55,259**	2,970
Income tax paid		**(72,883)**	(20,535)
NET CASH FROM OPERATING ACTIVITIES		**80,099**	330,473

Consolidated Cash Flow Statement

For the year ended 31 December 2007

	Note	2007 RMB'000	2006 RMB'000
INVESTING ACTIVITIES			
Purchase of property, plant and equipment		**(439,528)**	(341,168)
Payment for lease premium for land		**(14,508)**	(26,381)
Acquisition of a subsidiary	*31*	**(71,515)**	–
Proceeds on disposal of property, plant and equipment		**4,166**	13,027
Increase in pledged bank deposits		**(44,407)**	(45,585)
Increase in loan receivables		**(1,450,000)**	–
NET CASH USED IN INVESTING ACTIVITIES		**(2,015,792)**	(400,107)
FINANCING ACTIVITIES			
New bank borrowings raised		**–**	366,869
Interest paid		**(15,842)**	(20,490)
Repayment of bank borrowings		**(266,869)**	(555,320)
Proceeds on issue of shares net of issuance cost of RMB17,013,000		**759,112**	–
Proceeds from issue of convertible loan notes net of issuance cost of RMB54,174,000		**2,157,304**	–
Dividends paid		**(349,155)**	–
NET CASH FROM (USED IN) FINANCING ACTIVITIES		**2,284,550**	(208,941)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS		**348,857**	(278,575)
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE YEAR		**129,439**	408,014
EFFECTS OF FOREIGN EXCHANGE RATE CHANGES		**(232)**	–
CASH AND CASH EQUIVALENTS AT END OF THE YEAR, REPRESENTING BANK BALANCE AND CASH		**478,064**	129,439

1. GENERAL

The Company is a company incorporated in the Cayman Islands under the Companies Law as an exempted company with limited liabilities under the Companies Law (2000 Revision) Chapter 22 of the Cayman Islands on 11 May 2004 and its shares are listed on the Main Board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange").

The immediate and ultimate holding company of the Company is China Longgong Group Holdings Limited, a company incorporated in the British Virgin Islands on 3 June 2004 with limited liability. The addresses of the registered office and principal place of business of the Company are disclosed in the introduction to the annual report.

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

The principal activities of the Group are the manufacture and distribution of wheel loaders, road rollers, excavators, fork lifts, and other infrastructure machinery, the detail activities of the Group's subsidiaries are set out in Note 36.

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

In the current year, the Group has applied, for the first time, the following new standard, amendment and interpretations ("new HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"), which are effective for the Group's financial year beginning 1 January 2007.

HKAS 1 (Amendment)	Capital Disclosures
HKFRS 7	Financial Instruments: Disclosures
HK (IFRIC) – Int 7	Applying the Restatement Approach under HKAS 29 Financial Reporting in Hyperinflationary Economies
HK (IFRIC) – Int 8	Scope of HKFRS 2
HK (IFRIC) – Int 9	Reassessment of Embedded Derivatives
HK (IFRIC) – Int 10	Interim Financial Reporting and Impairment

The adoption of these new HKFRSs had no material effect on how the results and financial position for the current or prior accounting periods have been prepared and presented. Accordingly, no prior period adjustment has been required.

2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSS") *(Continued)*

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[1]
HKFRS 2 (Amendment)	Vesting Conditions and Cancellations[2]
HKFRS 3 (Revised)	Business Combinations[1]
HKFRS 8	Operating Segments[2]
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 limited on a Defined Benefit Assets, Minimum Funding Requirements and their Interaction[4]

[1] Effective for annual periods beginning on or after 1 July 2009
[2] Effective for annual periods beginning on or after 1 January 2009
[3] Effective for annual periods beginning on or after 1 March 2007
[4] Effective for annual periods beginning on or after 1 January 2008
[5] Effective for annual periods beginning on or after 1 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 1 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 these standards or interpretations will have no material impact on the results and the financial position of the Group.

3. SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements have been prepared on the historical cost basis except for certain properties and financial instruments, which are measured at fair values, as explained in the accounting policies set out below.

The consolidated financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards 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 of Hong Kong Limited 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.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Business combinations

The acquisition of businesses 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.

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.

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.

Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable and represents amounts receivable for goods sold 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.

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 receipt through the expected life of the financial assets to that asset's net carrying amount.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

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 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 over their estimated useful lives after taking into account of their estimated residual values, using the straight-line method.

Construction in progress includes property, plant and equipment in the course of construction for production or for its own use purpose. 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.

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

Amounts due from lessees under finance leases are recorded as receivables at the amount of the Group's net investment in the leases. Finance lease income is allocated to accounting periods so as to reflect a constant periodic rate of return on the Group's net investment outstanding in respect of the leases.

The Group as leasee

Rentals payable under operating leases are charged to profit or loss on a straight-line basis over the term of the relevant lease.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Lease premium for land

Interest in leasehold land is accounted for as operating leases and amortised over the lease term on a straight line basis.

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. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing on the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

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. Exchange differences arising on the retranslation of non-monetary items carried at fair value are included in profit or loss for the period.

The individual financial statements of each group entity are presented in the currency of the primary economic environment in which the entity operates (its functional currency). For the purpose of the consolidated financial statements, the results and financial position of each entity are expressed in Renminbi, which is the functional currency of the entities comprising the Group, and the presentation currency for the consolidated financial statements.

Borrowing costs

All borrowing costs are recognised as and included in finance costs in the consolidated income statement in the period in which they are incurred.

Government grants

Government grants are recognised as income over the periods necessary to match them with the related costs. The grants are recognised when there is reasonable assurance that the grants will be recovered unconditionally.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Retirement benefit costs

Payments to defined contribution retirement benefit plans are charged as an expense when employees have rendered service entitling them to contributions. Payments made to state-managed retirement benefit schemes are dealt with as payments to defined contribution plans where the Group's obligations under the plans are equivalent to those arising in a defined contribution retirement benefit plan.

Research expenditure

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

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.

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 are 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.

3. 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 profit 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 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.

Impairment losses on tangible assets

At each balance sheet date, the Group reviews the carrying amounts of its tangible assets to determine whether there is any indication that those assets have suffered an impairment loss. 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 recognized as an expense immediately.

Where an impairment loss subsequently reverses, 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 recognized for the asset in prior years. A reversal of an impairment loss is recognised as income immediately.

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 are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Financial instruments *(Continued)*

Financial assets

All of the Group's financial assets are loans and receivables. 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.

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, of which interest income is included in profit for the year.

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 receivables, bill receivables, other receivables, finance lease receivables, loan receivables from financial instruments, bank balances and pledged bank deposits) 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).

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. 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.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Financial instruments *(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 receivables, other receivables and finance lease receivables, where the carrying amount is reduced through the use of an allowance account. Changes in the carrying amount of the allowance account are recognised in profit or loss. When trade receivables, other receivables and finance lease 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 the 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.

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 the group after deducting all of its liabilities.

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.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Financial instruments *(Continued)*

Convertible Loan Notes

Convertible Loan Notes issued by the Group that contain liability and embedded derivatives (including conversion option, issuer early redemption option and holder early redemption option) which are not closely related to the host contract are classified separately into respective item on initial recognition. Conversion option will be settled other than by the exchange of a fixed amount of cash or other financial asset for a fixed number of the Company's own equity instruments is a derivative financial instrument. At the date of issue, the liability component and derivative component are recognised at fair value.

In subsequent period, the liability component is carried at amortised cost using the effective interest method, and the derivative components are measured at fair value with changes in fair value recognized in profit or loss. The interest charged on liability component is calculated by applying the original effective interest rate. The difference between this amount and the interest paid (if any) is added to the carrying amount of the liability component.

Transaction costs that relate to the issue of the Convertible Loan Notes are allocated to the liability and derivative components in proportion to their fair values at the date of issue. Transaction costs relating to the derivative component are charge to profit or loss immediately.

Transaction costs relating to the liability component are included in the carrying amount of the liability portion and amortised over the period of the Convertible Loan Notes using effective interest method.

Other financial liabilities

Other financial liabilities including trade payables, bill payables, other payables, amounts due to related parties, bank borrowings and the liability component of the convertible loan notes are subsequently measured at amortised cost, using the effective interest method.

4. KEY SOURCES OF ESTIMATION UNCERTAINTY

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, are discussed below.

Estimated impairment of loans and 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.

Provision for warranty costs

Starting from 18 December 2006, the Group offers a standard one-year warranty (previously a standard six-month warranty) for the wheel loaders, road rollers, excavators, fork lifts, during which free warranty service for the repair and maintenance of parts and components under normal usage is provided to the customers. The provision for warranty costs are based on the management's best estimate of the amount of expenditure that the Group would rationally pay to settle the present obligation at the balance sheet dates.

Useful lives of property, plant and equipment

The property, plant and equipment are depreciated on a straight-line basis over their estimated useful lives, after taking into account of their estimated residual value. The Group reviews annually the useful lives and residual value of the property, plant and equipment and if the expectation differs from the original estimate, such a difference may impact the depreciation in the year and the estimate will be changed in the future period.

Fair value of the derivatives

The directors of the Company use their judgement in selecting an appropriate valuation technique for derivative financial instruments, where the valuation techniques are those commonly applied by market practitioners. Assumptions are made based on market statistic and adjusted for specific features of the instrument. Details of the derivative financial instruments and their assumptions used are disclosed in notes 28 and 30.

5. BUSINESS AND GEOGRAPHICAL SEGMENT

Turnover represents the net amounts received and receivable for goods sold by the Group to outside customers during the year.

Business segments

The Group is engaged in the manufacture and sales of wheel loaders, road rollers, excavators, fork lifts, and other infrastructure machinery, which is regarded as one segment of the manufacturing and sales of construction machinery. The directors of the Company consider that no segment information is required to be disclosed.

Geographical segments

As over 90% of the consolidated turnover, assets and addition to property plant and equipment of the Group for the years is derived located in the PRC, an analysis of the segment turnover, assets and addition to property plant and equipment of the Group by geographic location is not presented.

6. INTEREST INCOME

	2007 **RMB'000**	2006 RMB'000
Interest on bank deposits	**54,119**	2,970
Interest on loan receivable from financial institutions	**16,268**	–
Interest on finance lease	**1,140**	–
	71,527	2,970

7. OTHER GAINS AND LOSSES

	2007 RMB'000	2006 RMB'000
Gain on disposal of property, plant and equipment	(1,123)	(5,531)
Exchange realignment from convertible loan notes	99,019	–
Foreign exchange losses	(65,361)	–
Change in fair value of derivative financial instruments	5,053	–
	37,588	(5,531)

8. FINANCIAL COSTS

	2007 RMB'000	2006 RMB'000
Interest on bank loans, overdraft and other borrowings wholly paid within five years	15,842	20,336
Effective interest expense on convertible loan notes	95,772	–
	111,614	20,336

9. INCOME TAX EXPENSE (CREDIT)

	2007 RMB'000	2006 RMB'000
Current tax:		
PRC Enterprise Income Tax ("EIT")	**96,006**	19,843
Over provision in prior year		
EIT	**(265)**	(4,384)
Deferred tax		
Current year	**(41,060)**	(24,731)
Income tax expense (credit)	**54,681**	(9,272)

Subsidiaries of the Group located in the PRC are entitled to tax exemption from EIT for the two years commencing from its first profit-making year of operations, after offsetting all unexpired tax losses carried forward from the previous years and thereafter, entitled to a 50 per cent tax relief from EIT for the next three years ("Tax Exemption"). Certain major subsidiaries are entitled to the Tax Exemption in the year 2007 and 2006.

The Company, China Dragon Development Holdings Limited and China Dragon Investment Holdings Limited are tax exempted companies registered in the Cayman Islands and British Virgin Islands, no provision for Hong Kong Profits Tax has been made as the Group's profit neither arose in, nor derived from Hong Kong during the year.

On 16 March 2007, the People's Republic of China promulgated the Law of the People's Republic of China on Enterprise Income Tax (the "New Law") by Order No. 63 of the President of the People's Republic of China. On 6 December 2007, the State Council of the PRC issued Implementation regulations of the New Law. The New Law and Implementation Regulations provides a five-year transition period from its effective date for those enterprises which were established before the promulgation date of the new tax law and which were entitled to a preferential lower tax rate under the then effective tax laws or regulations. In addition, based on the new tax law, certain subsidiaries of the Group that were entitled to preferential treatment in the form of enterprise income tax exemption, but has not been profitable and, therefore, has not enjoyed such preferential treatment, would have to begin its tax holiday in the same year that the new tax law comes into effect. The deferred tax balance has already reflected the tax rates that are expected to apply to the respective periods when the asset is realised or the liability is settled.

9. INCOME TAX EXPENSE (CREDIT) *(Continued)*

The entities located in the PRC were entitled to tax rates for the year ended December 31 2007 and 2006 ranges from 0% (exemption) to 33%.

The tax charge (credit) for the year ended 31 December 2007 and 2006 can be reconciled to the profit per the consolidated income statement as follows:

	2007		2006	
	RMB'000	**%**	RMB'000	%
Profit before taxation	**684,130**		616,076	
Tax at the domestic tax rate of 33%	**225,763**	**33.0**	203,305	33.0
Tax effect of expenses that are not deductible in determining taxable profit	**142**	**0.0**	2,814	0.5
Tax effect of income that is not taxable in determining in taxable profit	**–**	**–**	(1,023)	(0.2)
Tax effect of tax losses not recognized	**7,633**	**1.1**	2,017	0.3
Over provision in respect of prior years	**(265)**	**(0.0)**	(4,384)	(0.7)
Temporary differences not recognised in previous year	**(224)**	**(0.0)**	(30,947)	(5.0)
Deferred tax charged at different income tax rate	**14,919**	**2.2**	–	–
Effect of tax exemptions and income tax on concessionary rate granted to PRC subsidiaries	**(193,287)**	**(28.3)**	(181,054)	(29.4)
Tax charge (credit) and effective tax rate for the year	**54,681**	**8.0**	(9,272)	(1.5)

10. PROFIT BEFORE TAX

	2007	2006
	RMB'000	RMB'000
Profit before taxation has been arrived at after charging:		
Cost of inventory recognised as expense	**4,113,961**	2,756,215
Staff costs, including directors' remuneration		
Salaries and allowances	**192,701**	162,691
Contributions to retirement benefit scheme	**13,506**	7,134
Total staff costs	**206,207**	169,825
Auditors' remuneration	**2,764**	2,160
Allowance for bad and doubtful debts	**20,779**	14,069
Allowance for inventories	**3,094**	4,653
Depreciation	**61,527**	32,548
Amortisation of lease premium for land	**3,805**	3,416
Loss on disposal of property, plant and equipment	**1,123**	5,531
Research expenditures	**16,438**	18,091
and after crediting:		
Net exchange gain	**33,658**	–
Discount on acquisition *(Note 31)*	**5,833**	–
Interest income	**71,527**	2,970
Government grants *(note)*	**12,441**	7,180

Note: The government grants in 2007 represent the tax refund on reinvestment approved by State Administration of Taxation. There are no unfulfilled conditions and other contingencies attaching to the government grants.

11. DIRECTORS' EMOLUMENTS

	2007 RMB'000	2006 RMB'000
Fees	**1,182**	638
Other emoluments:		
Salaries and allowances	**2,930**	3,179
Contributions to retirement benefits scheme	**24**	14
	2,954	3,193
	4,136	3,831

Details of emoluments of individual directors are set out as follows:

	2007 RMB'000	2006 RMB'000
Fees:		
Non-executive director:		
Ms. Ngai Ngan Ying	**582**	240
Mr. Zhu, Mantian Myron	**–**	99
Ms. Fang De Qin	**300**	–
Independent director:		
Professor Yang Hongqi	**100**	100
Dr. Qian Shizheng	**100**	100
Mr. Peter Lo	**100**	99
	1,182	638

11. DIRECTORS' EMOLUMENTS *(Continued)*

Details of salaries, allowances and contributions to retirement benefits scheme are set out as follows:

	2007		2006	
	Salaries and allowances RMB'000	**Contributions to retirement benefits scheme RMB'000**	Salaries and allowances RMB'000	Contributions to retirement benefits scheme RMB'000
Executive director:				
Mr. Li San Yim	**1,164**	**–**	1,498	–
Mr. Qiu Debo	**596**	**4**	698	7
Mr. Luo Jianru	**296**	**4**	300	–
Ms. Feng Wanru	**–**	**–**	150	–
Mr. Chen Chao	**293**	**7**	216	4
Mr. Zhu Yong Sheng	**20**	**–**	120	–
Dr. Zhang Hong	**120**	**–**	100	–
Mr. Mou Yan Qun	**291**	**9**	75	3
Mr. Lin Zhong Ming	**150**	**–**	22	–
	2,930	**24**	3,179	14

12. EMPLOYEES' EMOLUMENTS

The five highest paid individuals in the Group in 2007 and 2006 were all directors of the Company and details of their emoluments are included in Note 11 above.

During both years ended 31 December 2007 and 2006, no emoluments were paid by the Group to any of the directors or five highest paid individuals as an inducement to join or upon joining the Group or as compensation for loss of office.

13. DIVIDENDS

	2007 RMB'000	2006 RMB'000
Dividends recognised as distribution during the year:		
2006 final of HK$0.22 per share	**223,200**	–
2007 interim of HK$0.12 per share	**125,955**	–
	349,155	–

A final dividend of HK$0.12 (Equivalent to RMB0.11) per ordinary share for the year ended 31 December 2007 has been proposed by the directors and is subject to approval by the shareholders in the annual general meeting to be held on 15 May 2008.

14. EARNINGS PER SHARE

The calculation of the basic and diluted earnings per share attributable to the ordinary equity holders of the Company is based on the following data:

	2007 RMB'000	2006 RMB'000
Earnings		
Earnings for the purposes of basic earnings per share	**629,616**	624,154
Effect of dilutive potential ordinary shares:		
Interest on convertible loan notes	**95,772**	–
Exchange realignment	**(98,642)**	–
Change in fair value of derivative financial instruments	**(5,053)**	–
Earnings for the purposes of diluted earnings per share	**621,693**	624,154

	2007 '000	2006 '000
Number of Shares		
Weighted average number of ordinary shares for the purposes of basic earnings per share	**1,072,809**	1,037,050
Effect of dilutive potential ordinary shares:		
Convertible loan notes	**73,634**	–
Weighted average number of ordinary shares for the purposes of diluted earnings per share	**1,146,443**	1,037,050

15. PROPERTY, PLANT AND EQUIPMENT

	Buildings RMB'000	Plant and machinery RMB'000	Motor vehicles RMB'000	Furniture and fixtures RMB'000	Construction in progress RMB'000	Total RMB'000
COST						
At 1 January 2006	194,883	201,572	12,062	11,752	62,288	482,557
Additions	11,803	44,901	9,206	11,608	263,650	341,168
Transfers	60,824	106,548	–	1,470	(168,842)	–
Disposals	(20,745)	(7,534)	(2,465)	(592)	–	(31,336)
At 31 December 2006	246,765	345,487	18,803	24,238	157,096	792,389
Additions	701	72,987	4,593	7,571	353,676	439,528
Transfers	126,702	97,373	–	19	(228,331)	(4,237)
Acquired on acquisition of subsidiary *(Note 31)*	42,741	4,942	223	68	–	47,974
Disposals	(1,600)	(6,248)	(1,116)	(873)	–	(9,837)
At 31 December 2007	415,309	514,541	22,503	31,023	282,441	1,265,817
DEPRECIATION						
At 1 January 2006	24,659	39,595	4,255	4,017	–	72,526
Charge for the year	8,746	18,875	2,912	2,015	–	32,548
Disposals	(5,900)	(4,490)	(1,953)	(435)	–	(12,778)
At 31 December 2006	27,505	53,980	5,214	5,597	–	92,296
Charge for the year	15,575	38,848	3,235	3,869	–	61,527
Disposals	(424)	(2,662)	(779)	(683)	–	(4,548)
At 31 December 2007	42,656	90,166	7,670	8,783	–	149,275
CARRYING AMOUNT						
At 31 December 2007	372,653	424,375	14,833	22,240	282,441	1,116,542
At 31 December 2006	219,260	291,507	13,589	18,641	157,096	700,093

Notes to the Consolidated Financial Statements

For the year ended 31 December 2007

15. PROPERTY, PLANT AND EQUIPMENT *(Continued)*

The buildings of the Group are situated in the PRC under medium term land use rights.

The construction in progress is mainly related to the construction of factory premise and production plants which had not been completed at the balance sheet dates.

Depreciation is provided to write off the cost of property, plant and equipment, other than construction in progress, over their estimated useful lives and after taking into account their estimated residual value, using the straight-line method, as follows:

Buildings	Over the shorter of the term of the land use rights or 30 years
Plant and machinery	4 to 11 years
Motor vehicles	5 to 6 years
Furniture and fixtures	4 to 6 years

16. LEASE PREMIUM FOR LAND

	2007	2006
	RMB'000	RMB'000
Balance at beginning of the year	**149,196**	126,231
Acquisition of a subsidiary *(Note 31)*	**42,882**	–
Additions	**14,508**	26,381
Transfers	**4,237**	–
Amortisation	**(3,805)**	(3,416)
Balance at end of the year	**207,018**	149,196
Analysed for reporting purpose as:		
Current portion	**4,402**	2,984
Non-current portion	**202,616**	146,212
	207,018	149,196

The carrying amount represented medium-term land use rights situated in the PRC.

The lease premium for land is charged to profit or loss over the term of the land use rights.

The Group is in the process of obtaining the land use right certificate for long-term leasehold land of RMB10,071,000 at 31 December 2007 (2006: Nil).

17. FINANCE LEASE RECEIVABLES

Certain of the wheel loaders, road rollers, excavators, fork lifts, and other infrastructure machinery of the Group are leased out under finance leases. All interest rates inherent in the leases are fixed at the contract date over the lease terms.

	Minimum lease payments RMB'000	Present value minimum lease payments RMB'000
Finance lease receivables comprise:		
Within one year	316,607	303,679
In more than one year but not more than two years	37,190	34,952
In more than two year but not more than five years	191	168
	353,988	338,799
Less: unearned finance income	15,189	N/A
Present value of minimum lease payment receivables	338,799	338,799
Analysed for reporting purposes as:		
Current		303,679
Non-current		35,120
		338,799

Unguaranteed residual values of assets leases under finance leases are nil. No contingents rents recognised in income for the year. No accumulated impairment loss as at 31 December 2007.

Effective interest rates of the above finance leases range from 6.5% to 13% per annum.

Finance lease receivables are secured over the leased infrastructure machinery. The Group is not permitted to sell or repledge the collateral in the absence of default by the lease.

At 31 December 2007, amount of RMB41,077,000 of finance lease deposit is received, thereinto, amount of RMB16,563,000 is maturity over 1 year.

18. LOAN RECEIVABLES FROM FINANCIAL INSTITUTIONS

	2007 RMB'000	2006 RMB'000
Fixed-rate loan receivables (current)	1,450,000	–

The Group enters into contract with several financial institutions on purchasing fixed-rate financing products. The ranges of effective interest on the Group's loan receivables are 4.2% to 6% per annum. The loan receivables are all within one year. The Group does not hold any collateral over these balances.

19. DEFERRED TAXATION

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

Deferred tax assets:

	Allowance for bad and doubtful debts RMB'000	Provision for products warranty RMB'000	Allowance for inventories RMB'000	Unrealised profit in inventory RMB'000	Accrued sales promotion cost RMB'000	Total RMB'000
At 1 January 2006	–	–	–	–	–	–
Credit to consolidated income statement for the year	2,394	3,496	715	6,894	11,232	24,731
At 31 December 2006	2,394	3,496	715	6,894	11,232	24,731
Effect of change in tax rate	(253)	(5,518)	(429)	(1,943)	(6776)	(14,919)
Credit to consolidated income statement for the year	2,774	25,513	1,099	9,873	16,720	55,979
At 31 December 2007	4,915	23,491	1,385	14,824	21,176	65,791

19. DEFERRED TAXATION *(Continued)*

Deferred tax liability:

	Fair value adjustment on land and buildings
	RMB'000
Acquisition of a subsidiary *(Note 31)* and at 31 December 2007	5,671

At the balance sheet date, certain subsidiaries of the Group have unused tax losses of RMB23 million (2006: RMB6 million) available for offset against future profits that may be carried forward indefinitely. No deferred tax asset has been recognised in respect of the tax losses due to the unpredictability of future profit streams of these subsidiaries.

20. INVENTORIES

	2007	2006
	RMB'000	RMB'000
Raw materials	**528,642**	225,321
Work in progress	**155,944**	95,726
Finished goods	**806,760**	631,722
	1,491,346	952,769

21. TRADE RECEIVABLES, BILL RECEIVABLES, OTHER RECEIVABLES AND PREPAYMENTS

	2007	2006
	RMB'000	RMB'000
Trade receivables	**388,276**	270,574
Less: allowance for doubtful debts	**(38,105)**	(17,952)
	350,171	252,622
Bill receivables	**522,362**	427,174
Other receivables and prepayments	**392,655**	146,980
Less: allowance for doubtful debts	**(1,415)**	(789)
	391,240	146,191

The Group allows an average credit periods ranging from 0 to 90 days to its trade customers other than some customers with good credit history and relationships, with whom longer credit terms will be agreed.

The aged analysis of trade receivables is as follows:

	2007	2006
	RMB'000	RMB'000
0 to 90 days	**302,626**	224,022
91 to 180 days	**39,263**	13,219
181 to 270 days	**2,565**	10,015
271 days to 1 year	**5,717**	5,366
	350,171	252,622

Bill receivables are aged within six months at both balance sheet dates.

Before accepting any new customer, the Group uses an internal credit evaluation system to assess the potential customer's credit quality and defines credit limits by customer. Limits and scoring attributed to customers are reviewed once a year. 86% of the trade receivables that are neither past due nor impaired have the best credit scoring attributable under the internal credit scoring system used by the Group.

Included in the Group's trade receivable balance are debtors with aggregate carrying amount of RMB47,545,000 (2006: RMB28,600,000) which are past due at the reporting date for which the Group has not provided for impairment loss. The Group does not hold any collateral over these balances. As majority past due trade receivables are collected after 31 December 2007 and 2006, the directors believe that no impairment loss provided on these past due receivables.

21. TRADE RECEIVABLES, BILL RECEIVABLES, OTHER RECEIVABLES AND PREPAYMENTS *(Continued)*

The Group has provided fully for all receivables over 360 days because historical experience is such that receivables that are past due beyond 360 days are generally not recoverable.

The breakdown of major items in other receivables and prepayments of the Group is as follows:

	2007	2006
	RMB'000	RMB'000
Deposits for purchase of supplies and raw materials	**314,573**	104,409
Value-added tax recoverable	**54,035**	34,624
Interest receivables from financial institutions	**16,268**	–
Others	**6,364**	7,158
	391,240	146,191

The directors consider that the carrying amount of trade receivables, bill receivables, and other receivables approximate their fair value.

Movement in the allowance for doubtful debts

	2007	2006
	RMB'000	RMB'000
Balance at beginning of the year	**18,741**	4,672
Impairment losses recognised on receivables	**20,779**	14,069
Balance at end of the year	**39,520**	18,741

22. BANK BALANCES AND PLEDGED BANK DEPOSITS

The pledged deposits are secured for short-term banking facilities from the banks in respect of purchases of raw materials for manufacturing and are therefore classified as current assets. The bank balances and pledged deposits are carrying interest at an effective interest rate of 1.27%-5.15% per annum.

The directors consider that the carrying amounts of pledged bank deposits and bank balances and cash approximate their fair value.

At 31 December 2007 amounts of 18,305,000 (2006: 2,182,000) is dominated in HK$, and amounts of 36,575,000 (2006: 165,000) is dominated in USD, and nil (2006: 1,012,000) is dominated in EUR.

23. TRADE PAYABLES, BILL PAYABLES, OTHER PAYABLES AND ACCRUALS

The aged analysis of trade payables is as follows:

	2007 RMB'000	2006 RMB'000
0 to 180 days	**650,895**	279,765
181 days to 1 year	**41,678**	48,355
1 to 2 years	**4,845**	1,897
2 to 3 years	**92**	1,655
Over 3 years	**–**	750
	697,510	332,422

The average credit period on purchases of goods is 0-180 days. The Group has financial risk management policies in place to ensure that all payables within the credit timeframe.

Bill payables are aged within 6 months at both balance sheet dates.

The directors consider that the carrying amounts of trade payables, bill payables, other payables, and accruals approximate their fair values.

24. PROVISIONS

	2007 RMB'000	2006 RMB'000
At 1 January 2007	**27,101**	26,899
Additional provision for the year	**150,734**	53,061
Utilisation of provision	**(49,539)**	(52,859)
At 31 December 2007	**128,296**	27,101

The Group offers a standard one-year warranty (starting from 18 December 2006) for the wheel loaders and road rollers. The provisions represent the present value of the directors' best estimate of the future outflow that will be required under the Group's warranty policy.

25. AMOUNTS DUE TO RELATED PARTIES

	2007	2006
	RMB'000	RMB'000
Non-trade		
Shanghai Longgong Machinery Co., Ltd. *(note a)*	**1,848**	1,848
China Longgong Group Holdings Limited *(note a)*	**5,168**	5,545
Trade		
Longyan City Jinlong Machinery Company Limited *(note b)*	**5,359**	–
Sichuan Deying Bonding Company Limited *(note c)*	**500**	–
	12,875	7,393

Note a: Mr. Li San Yim and Madam Ngai Ngan Ying hold beneficial interest in these companies. The amounts due to Shanghai Longgong Machinery Co, Ltd. are dividends payable declared during the year ended 31 December 2006 by a non-wholly owned subsidiary whose minority shareholder is Shanghai Longgong Machinery Co, Ltd. The amounts due to China Longgong Group Holdings Limited are payment of expense made on behalf of the Company.

Note b: Mr Ngai Ngan Gin, the brother of Madam Ngai Ngan Ying holds beneficial interest in this company. The amount due to Longyan City Jinlong Machinery Company Limited ("JinLong") represents purchase of spare parts. The credit period on purchase of spare parts is 60 days, and the amount due to Jinlong is within credit term.

Note c: Mr. Chen Jie, the son in law of Mr. Li San Yim holds beneficial interest in this company. The amount due to Sichuan Deying Bonding Company Limited represents deposits for finance lease of wheel loaders.

All the amounts are unsecured, non-interest bearing and repayable on demand.

The directors consider that the carrying amounts of amounts due to related parties approximate their fair values.

26. SHARE CAPITAL

	Number of shares		Share capital	
	2007	2006	**2007**	2006
	'000	'000	**HK$'000**	HK$'000
Ordinary shares of HK$ 0.1 each				
Authorised				
At 31 December 2006 and 2007	**5,000,000**	5,000,000	**500,000**	500,000
			RMB'000	RMB'000
Issued and fully paid				
At 1 January 2007	**1,037,050**	1,037,050	**107,886**	107,886
Increase on 13 April 2007	**52,000**	–	**5,123**	–
At 31 December 2007	**1,089,050**	1,037,050	**113,009**	107,886

On 13 April 2007, the Company issued a total of 52,000,000 subscription shares of HK$0.10 each at a price of HK$15.15 (Equivalent to RMB14.83) per share. The proceeds are to be used to expand the production capacity to upgrade the research and development capabilities and to provide additional working capital for the Group.

27. SPECIAL RESERVE AND NON-DISTRIBUTABLE RESERVE

The special reserve of the Group represents the difference between the nominal value of the share capital issued by the Company and the nominal value of the share capital of the subsidiaries acquired pursuant to a group reorganisation in 2004.

The non-distributable reserve of the Group represents the statutory reserve which comprised of capital reserve and statutory reserve funds appropriated from the profit after taxation of subsidiaries established in the PRC in accordance with the PRC laws and regulations.

28. CONVERTIBLE LOAN NOTES AND DERIVATIVE FINANCIAL INSTRUMENTS

Convertible Loan Notes of US$287 million were issued by the Company on 30 April 2007 at an issue price of US$10,000 per Convertible Loan Note of US$10,000. The Convertible Loan Notes are listed on the Singapore Exchange Securities Trading Limited. Each Convertible Loan Note entitles the holder to convert to one ordinary share of the Company at the conversion price of HK$20.4525 (the "Conversion Price"), but will be subject to anti-dilutive adjustment as stated in the offering circular on 27 April 2007 ("Offering Circular").

The principal terms of the Convertible Loan Notes are as follows:

Interest

The Convertible Loan Notes do not bear any interest.

Conversion period

The conversion period starts from the 40th day after the issue of Convertible Loan Notes and will cease on the 7th business day prior to the maturity day of 30 April 2012 (the "Maturity Date").

Maturity

Unless previously redeemed or converted, the Company will redeem each Convertible Loan Note at 121.155% of its principal amount on the Maturity Date.

Redemption at the Option of the Company

On and at any time after 30 April 2010 but not less than seven business days prior to the Maturity Date nor within the closed period which is defined in the Offering Circular, the Company may, having given not less than 30 nor more than 60 days' notice to the bondholders, redeem the Convertible Loan Notes in whole or in part at the early redemption amount ("Early Redemption Amount"), provided that no such redemption may be made unless the closing price of the Company shares translated into US dollars at the prevailing exchange rate for each of any 20 trading days falling within a period of 30 consecutive trading days, the last day of which period occurs no more than 5 trading days prior to the date upon which notice of such redemption is given, was at least 130% of the Conversion Price in effect translated into US dollars at the fixed exchange rate of HK$7.8175 = US$1.00 on each such stock exchange business day.

28. CONVERTIBLE LOAN NOTES AND DERIVATIVE FINANCIAL INSTRUMENTS *(Continued)*

Redemption at the Option of the Bondholders

The holder of each Convertible Loan Note will have the right to require the Company to redeem all or some of their Convertible Loan Notes at Early Redemption Amount of the initial principal amount on or at any time after 30 April 2010 on the occurrence of a change of the Company's controlling shareholders or delisting of the Company's shares.

The gross proceeds net of transaction costs received from the issue of the Convertible Loan Notes are split into liability component and derivative component (comprised of embedded derivatives which are considered as not closely related to the host liability component) as follow:

(i) Liability component represents the present value of the contractual stream of future cash flows discounted at the prevailing market interest rate at that time applicable to instruments of comparable credit status and providing substantially the same cash flows, on the same terms, but without the embedded derivatives.

The interest charged for the year is calculated by applying an effective interest rate of approximately 7.19% to the liability component since the Convertible Loan Notes were issued.

(ii) Derivative component represents:

(i) The fair value of the option of the holders to convert the Convertible Loan Notes into shares of the Company at an initial conversion price of HK$20.4525 per ordinary share of HK$0.1 each in the share capital of the Company ("Share").

(ii) The fair value of the option of the Company to early redeem the Convertible Loan Notes.

(iii) The fair value of the option of the holders to require the Company to early redeem the Convertible Loan Notes.

28. CONVERTIBLE LOAN NOTES AND DERIVATIVE FINANCIAL INSTRUMENTS *(Continued)*

Redemption at the Option of the Bondholders *(Continued)*

The movement of the liability component and derivative component of the Convertible Loan Notes for the period is set out below:

	Liability component RMB'000	Derivative component RMB'000	Total RMB'000
Convertible Loan Notes:			
At date of issue on 30 April 2007 net proceeds	1,846,790	310,514	2,157,304
Exchange realignment	(98,642)	–	(98,642)
Effective interest expense charged during the period	95,772	–	95,772
Changes in fair value	–	(5,053)	(5,053)
	1,843,920	305,461	2,149,381

At the issuance date and 31 December 2007, the fair values of the conversion option of the holders and the redemption option of the Company have been determined based on the Binomial Model and redemption option of the bondholders have been determined based on the Black-Scholes Model.

29. 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 net debt, which includes the Convertible Loan Notes disclosed in note 28, net of cash and cash equivalents and equity attributable to equity holders of the Company, comprising issued share capital, reserves and retained earning.

The directors of the Company review the capital structure on a semi-annual basis. As part of this review, the directors consider the cost of capital and the risks associates with each class of capital. Based on recommendations of the directors, the Group will balances its overall capital structure through the payment of dividends, new share issues and the issue of new debt.

30. FINANCIAL INSTRUMENTS

30.1. Categories of financial instruments

	2007 RMB'000	2006 RMB'000
Financial assets:		
Loans and receivables (including cash and cash equivalents)	3,271,081	875,986
Financial liabilities:		
Designated as at FVTPL	305,461	–
Amortised cost	3,044,699	876,898

30.2. Financial risk management objectives and policies

The Group's major financial instruments include trade receivables, bill receivables, finance lease receivables, loan receivables from financial institutions, pledged bank deposits, bank balances and cash, trade payables, bill payables and Convertible Loan Notes. Details of the financial instruments are disclosed in respective notes. The risks associated with these financial instruments include market risk (currency risk, interest rate risk and price risk), credit risk and liquidity risk. 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.

It is, and has been throughout the year, the Group's policy not to enter into trading of financial instruments including derivative transactions.

30. FINANCIAL INSTRUMENTS *(Continued)*

30.2. Financial risk management objectives and polices *(Continued)*

The Board reviews and agrees policies for managing each of these risks and they are summarised below:

Market risk

(i) Currency risk

The Company issued Convertible Loan Notes of US$287 million and approximately 5% of the Group's sales are denominated in currencies other than the functional currency of the group entity making the sale. In addition some of machinery purchases are denominated in currencies other than the group entity's functional currency, which expose the Group to foreign currency risk. The Group currently does not have a currency risk hedging policy. The management will continue to monitor foreign currency risk exposure and consider hedging against it should the need arises.

The carrying amounts of the Group's foreign currency denominated monetary assets and monetary liabilities at the reporting date are as follows:

	Assets		**Liabilities**	
	2007	2006	**2007**	2006
	RMB'000	RMB'000	**RMB'000**	RMB'000
United States dollar (USD)	**280,606**	18,529	**(1,844,030)**	(2,364)
Euro (EUR)	**42,464**	10,391	**–**	–
Hong Kong dollar (HK$)	**17,550**	3,342	**(7,194)**	(7,091)

Sensitivity analysis

The Group is mainly exposed to USD and EUR.

The following table details the Group's sensitivity to a 5% appreciation or depreciation in Renminbi against the relevant foreign currencies. 5% 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 foreign currency denominated monetary items and adjusts their translation at the year end for a 5% change in foreign currency rates. A positive number below indicates an increase in profit where Renminbi strengthen 5% against the relevant currency. For a 5% weakening of Renminbi against the relevant currency, there would be an equal and opposite impact on profit for the year.

30. FINANCIAL INSTRUMENTS *(Continued)*

30.2. Financial risk management objectives and polices *(Continued)*

Market risk *(Continued)*

(i) Currency risk (Continued)

	USD impact		EUR impact		HK$ impact	
	2007	2006	**2007**	2006	**2007**	2006
	RMB'000 *(Note)*	RMB'000	**RMB'000**	RMB'000	**RMB'000**	RMB'000
Profit or loss *(note)*	**78,171**	(808)	**(2,123)**	(520)	**(518)**	187

Note: The USD impact in 2007 is mainly attributable to the exposure outstanding on the USD dominated Convertible Loan Notes outstanding at year end.

(ii) Interest rate risk

The Group is exposed to cash flow interest rate risk in relation to variable-rate bank balances. The Group's fair value interest rate risk relates to financial liabilities are detailed in the liquidity risk management section of this note. The Group has not entered into any interest rate hedging contracts or any other derivative financial instrument. The management closely monitors such risks and will consider hedging significant interest rate risk exposure should the need arise.

Sensitivity analysis

The sensitivity analyses below have been determined based on the exposure to interest bearing financial instruments at the balance sheet date. The analysis is prepared assuming the amount of interest bearing financial instruments outstanding at the balance sheet date was outstanding for the whole year. A 50 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 50 basis points higher/lower and all other variables were held constant, the Group's profit for the year ended 31 December 2007 would increase/decrease by RMB1,721,000 (2006: increase/decrease by RMB647,000).

(iii) Price risk

The Group is required to estimate the fair value of the derivative option embedded in the convertible loan notes at each balance sheet date with changes in fair value to be recognised in the consolidated income statements as long as the convertible loan notes are outstanding. The fair value adjustment will be affected either positively or negatively, amongst others, by the changes in short-term interest (risk free) rate, the Company's share market price and share price volatility.

30. FINANCIAL INSTRUMENTS *(Continued)*

30.2. Financial risk management objectives and polices *(Continued)*

Market risk *(Continued)*

(iii) Price risk (Continued)

Sensitivity analysis

The fair value of derivative option component embedded in the convertible loan notes was estimated using binomial option pricing model. The sensitivity analysis below has been determined based on the exposure to the Company's share price risks at the reporting date only as the directors of the Company consider that other variables may not have significant financial impact on the derivative option.

If the Company's share price have been 5% higher/lower and all other variables were held constant, the Group's profit for the year (as a result of changes in fair value of derivative option component of convertible loan notes) would increase by RMB30,546,000/decrease by RMB16,055,000 (2006: Nil).

In management's opinion, the sensitivity analysis are unrepresentative of the inherent marked risk as the pricing model used in the fair value valuation of derivative option component of convertible loan notes involves multiple variables and certain variables are interdependent.

Credit risk

The Group's maximum exposure to credit risk which will cause a financial loss to the Group due to failure to discharge an obligation by the counterparties is the carrying amount of the respective recognised financial assets as stated in the consolidated balance sheet.

In order to minimise the credit risk in relation to trade receivables and other receivables, the Group trades only with recognised, creditworthy third parties and has made policy that all customers who wish to trade on credit terms are subject to credit verification procedures. In addition, the Group reviews the recoverable amount of each individual trade 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 amounts presented in the consolidated balance sheet are net of allowances for doubtful receivables, if any, estimated by the Group's management based on prior experience and their assessment of the current economic environment.

30. FINANCIAL INSTRUMENTS *(Continued)*

30.2. Financial risk management objectives and polices *(Continued)*

Credit risk *(Continued)*

In order to minimise the credit risk on finance lease receivables, the Group received deposits from the customers before the lease term commenced. The Group also reviews each customer's credit standing before financing the lease. If any customer delays lease payment for 3 months, the Group will deduct deposits from the customers directly. The management closely monitors such risks and will consider hedging significant credit risk exposure should the need arise.

The Group considers the credit risk on bill receivables is limited because the bill receivables are accepted by banks with high credit ratings assigned by international credit-rating agencies.

With respect to credit risk arising from the other financial assets of the Group which comprise bank balances and pledged bank deposits and loan receivables from financial institutions, the Group's exposure to credit risk arising from default of counterparties is limited as the counterparties are banks with high credit rating assigned by international credit-rating agencies.

The Group has concentrations of credit risk on loan receivables from financial institutions, which are due from five financial institutions. These financial institutions have good reputation and high credit ratings assigned by international credit-rating agencies. In this regard, the directors of the Company consider that the Group's concentration of credit risk is significantly reduced.

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 Group relies on bank balances and cash, Convertible Loan Notes and bill payables as a significant source of liquidity. The Group has no line of credit arrangements.

30. FINANCIAL INSTRUMENTS *(Continued)*

30.2. Financial risk management objectives and polices *(Continued)*

Liquidity risk (Continued)

The following table details the Group's remaining contractual maturity for its non-derivative financial liabilities which are included in the maturity analysis provided internally to the key management personnel for the purpose of managing liquidity risk. The table reflects the undiscounted cash flows of financial liabilities based on the earliest date which the Group can be required to pay. The table includes both interest and principle cash flows.

	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	Undiscounted cashflow RMB'000	Total carrying amount RMB'000
2007							
Non-derivative financial liabilities							
Trade and other payable	–	913,135	228,274	29,932	16,563	1,187,904	1,187,904
Amounts due to related party	–	5,359	–	7,516	–	12,875	12,875
Convertible Loan Notes	7.19%	–	–	–	2,359,918	2,359,918	1,843,920
Total		918,494	228,274	37,448	2,376,481	3,560,697	3,044,699

	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	Undiscounted cashflow RMB'000	Total carrying amount RMB'000
2006							
Non-derivative financial liabilities							
Trade and other payable	–	363,892	227,059	11,685	–	602,636	602,636
Amounts due to related party	–	–	–	7,393	–	7,393	7,393
Bank borrowings	5.63%	103,303	169,645	–	–	272,948	266,869
Total		467,195	369,704	19,078	–	882,978	876,898

30. FINANCIAL INSTRUMENTS *(Continued)*

30.3. Fair value

The fair value of financial assets and financial liabilities are determined as follows:

The fair value of financial assets and financial liabilities are determined in accordance with generally accepted pricing models based on discounted cash flow analysis using prices or rates from observable current market transactions as input. For the derivative financial instruments, the fair value is estimated using Binomial Model and Black-Scholes Model.

The fair value of finance lease receivables is estimated to be RMB336,358,000 using a 7.47% discount rate based on quoted market rate constituted by People's Bank of China and adding a credit margin that reflects the secured nature of the receivables balance.

Except as detailed in the following table, 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:

	2007		2006	
	Carrying amount RMB'000	**Fair value RMB'000**	Carrying amount RMB'000	Fair value RMB'000
Financial assets				
Finance Lease Receivables *(Note 17)*	**338,799**	**336,358**	–	–
Financial liabilities				
Convertible Loan Notes *(Note 28)*	**1,843,920**	**1,904,602**	–	–
Derivative Financial Instruments *(Note 28)*	**305,461**	**305,461**	–	–

31. ACQUISITION OF A BUSINESS

On 31 March 2007, the Group acquired 99.95% of the interest of Henan Longgong Machinery Co., Ltd. from third parties for a total consideration of RMB98 million. This acquisition has been accounted for using the purchase method. The business activity of Henan Longgong Machinery Co., Ltd. is set out in Note 36.

The net assets and fair values acquired in the transaction are as follows:

	Acquiree's carrying amount before combination	**Fair value adjustments**	**Fair value**
	RMB'000	RMB'000	RMB'000
Net assets acquired:			
Property, plant and equipment	39,957	8,017	47,974
Lease premium for land	28,215	14,667	42,882
Inventories	27,035	–	27,035
Trade and other receivables	1,361	–	1,361
Bank balances and cash	26,613	–	26,613
Pledged bank deposits	5,053	–	5,053
Trade and other payables	(41,231)	–	(41,231)
Deferred tax liability	–	(5,671)	(5,671)
	87,003	17,013	104,016
Minority interests			(55)
Discount on acquisition of a subsidiary			(5,833)
Total consideration, satisfied by:			
Cash			98,128
Net cash outflow arising on acquisition:			
Cash consideration paid			98,128
Bank balances and cash acquired			(26,613)
			71,515

The discount on acquisition arises from the appreciation in assets value for the period between the pricing decision date and the acquisition date when the Group took control over the company.

31. ACQUISITION OF A BUSINESS *(Continued)*

Henan Longgong Machinery Manufacturing Co., Ltd. reduced the Group's profit for the period by RMB7.6 million between the date of acquisition and the balance sheet date.

If the acquisition had been completed on 1 January 2007, total Group revenue for the year would have been RMB5,313 million, and profit for the year would have been RMB624 million. The pro forma information is for the illustrative purpose only and is not necessarily an indicative of the revenue and results of the operations of the Group that actually would have been achieved had the acquisition been completed on 1 January 2007, nor is it intended to be a projection of future results.

32. OPERATING LEASE COMMITMENTS

	2007 **RMB'000**	2006 RMB'000
Minimum lease payments paid under operating leases in respect of premises during the year	**4,552**	4,552

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	**4,643**	2,780
In the second to fifth year inclusive	**6,569**	1,865
Over five years	**718**	821
	11,930	5,466

Operating lease payments represent rentals payable by the Group for certain of its office premises and staff quarters. Leases are negotiated for an average term ranging from one to twelve years and rentals are fixed for the relevant lease terms.

33. CAPITAL COMMITMENTS

	2007	2006
	RMB'000	RMB'000
Capital expenditure contracted for but not provided in the financial statements in respect of acquisition of property, plant and equipment	**266,281**	98,848

34. RELATED PARTY TRANSACTIONS

Except for related party balances set out in note 25, the following related party transactions took place during the year:

Name of related party	**Nature of transactions**	**2007**	2006
		RMB'000	RMB'000
Jinlong *(note)*	Purchase of goods	**6,103**	–

Note: The Company is owned as to approximately 82.67% by Mr. Ngai Ngan Qin, a brother of Madam Ngai Ngan Ying, since 14 November 2007.

Compensation of key management personnel

The details remuneration of directors during the year are set out in note 11.

The remuneration of directors and key executives is determined by the remuneration committee having regard to the performance of individuals and market trend.

35. RETIREMENT BENEFIT SCHEME

The employees employed by the Group in the PRC are members of the stated-managed retirement benefit schemes operated by the government of the PRC. The Group is required to contribute a certain percentage of its payroll costs to the retirement benefit schemes to fund the benefit. The only obligation of the Group with respect to the retirement benefit scheme is to make the specific contributions.

The total expense recognised in the consolidated income statement of RMB13,506,000 (2006: RMB7,134,000) represents contributions payable to these plans by the Group at rates specified in the rules of the plans. No contributions payable to the plans were unpaid at the respective balance sheet date of 2007 and 2006.

36. SUBSIDIARIES

Details of the Company's subsidiaries as at 31 December 2007 are as follows:

Name	Date and place of establishment/ incorporation	Paid-up issued/ registered ordinary	Attributable equity interest *(note 1)*	Principal activities
Longgong Shanghai Machinery Co., Ltd. (龍工(上海)機械製造有限公司)	13 August 2004 PRC Sino foreign equity joint venture	HK$448,000,000	99.89%	Manufacture and distribution of wheel loaders
Longgong (Shanghai) Axle & Transmission Co., Ltd. (龍工(上海)橋箱有限公司)	17 September 2001 PRC wholly-owned foreign investment enterprise ("WOFE")	HK$168,000,000	100%	Manufacture and distribution of axles and great-box
Longgong Fujian Machinery Co., Ltd. (龍工(福建)機械有限公司)	15 September 2004 PRC WOFE	HK$260,000,000	100%	Manufacture and distribution of wheel loaders
Fujian Longyan Longgong Machinery Components Co., Ltd. (福建龍岩龍工機械配件有限公司)	1 March 1999 PRC WOFE	HK$29,680,000	100%	Manufacture and distribution of wheel loader component
Hydraulics (Shanghai) Hydraulic Machinery Co., Ltd. 海克力斯(上海)液壓機械有限公司	30 September 2003 PRC WOFE	USD31,800,000	100%	Manufacture and distribution of wheel loader component
Refined (Shanghai) Machinery Co., Ltd. 鋭帆德(上海)機械有限公司	27 November 2003 PRC WOFE	HK$50,000,000	100%	Manufacture and distribution of wheel loader component
Longgong (Jiangxi) Gear Co., Ltd. 龍工(江西)齒輪有限公司	12 September 2003 PRC WOFE	RMB257, 350,253	100%	Manufacture and distribution of wheel loader component

36. SUBSIDIARIES *(Continued)*

Name	Date and place of establishment/ incorporation	Paid-up issued/ registered ordinary	Attributable equity interest *(note 1)*	Principal activities
Jiangxi Longgong Machinery Co., Ltd. 江西龍工機械有限公司	12 September 2003 PRC WOFE	RMB10,000,000	100%	Manufacturing hydraulic parts and other machinery products
Longgong (Fujian) Hydraulics Machinery Co., Ltd. 龍工(福建)液壓機械有限公司	15 January 2006 PRC WOFE	HK$100,000,000	100%	Manufacture and distribution of wheel loader component
Longgong (Fujian) Axle & Transmission Co., Ltd. 龍工(福建)橋箱有限公司	16 January 2006 PRC WOFE	HK$200,000,000	100%	Manufacture and distribution of axles and great-boxes
Longgong (Shanghai) Road Machinery Manufacturing Co., Ltd. 龍工(上海)路面機械制造有限公司	12 September 2006 PRC WOFE	HK$100,000,000	100%	Manufacture and distribution of wheel loader and road roller
Longgong (Shanghai) Excavator Manufacturing Co., Ltd. 龍工(上海)挖掘機制造有限公司	12 September 2006 PRC WOFE	HK$260,000,000	100%	Manufacture and distribution of excavator
Monarch (Shanghai) Machinery Co., Ltd. 摩納凱(上海)機械有限公司	1 January 2006 PRC WOFE	HK$83,600,000	100%	Manufacture and distribution of hydraulic parts and other machinery products
Monarch (Shanghai) Forklift Co., Ltd. 龍工(上海)叉車車有限公司	7 February 2006 PRC WOFE	HK$200,000,000	100%	Manufacture and distribution of forklift
Henan Longgong Machinery Manufacturing Co., Ltd. 河南龍工機械制造有限公司	11 July 2002 PRC Sino foreign equity joint venture	RMB82,700,000	99.95%	Manufacture and distribution of wheel loader and farm machines

36. SUBSIDIARIES *(Continued)*

Name	Date and place of establishment/ incorporation	Paid-up issued/ registered ordinary	Attributable equity interest *(note 1)*	Principal activities
Longgong (Shanghai) Financing Leasing Co., Ltd. 龍工(上海)融資資租賃有限公司	28 March 2007 PRC WOFE	US$10,000,000	100%	Financing lease for wheel loader and other machinery
Longgong (China) Machinery Sales Co., Ltd. 龍工(中國)機械銷銷售有限公司	12 September 2007 PRC WOFE	RMB50,000,000	100%	Distribution of wheel loaders and other machinery
Longgong (Fujian) International Trade Co., Ltd. 龍工(福建)國際貿易有限公司	19 June 2007 PRC WOFE	RMB30,000,000	100%	Distribution of wheel loaders and other machinery
Longgong (Fujian) Casting & Forging Co., Ltd. 龍工(福建)鑄鍛有限公司	13 August 2007 PRC WOFE	US$65,000,000	100%	Manufacture and distribution of wheel loader component
China Dragon Development Holdings Ltd. (中國龍工發展控股有限公司) *(note 2)*	3 May 2004 British Virgin Islands ("BVI")	US$50,000	100%	Investment holding
China Dragon Investment Holdings Ltd. (中國龍工投資控股有限公司) *(note 2)*	3 May 2004 BVI	US$50,000	100%	Investment holding

Note 1: The attributable equity interest held by the Company increased from 99.625% as at 31 December 2006 to 99.89% as at 31 December 2007, due to the increase in share capital of Longgong Shanghai Machinery Co., Ltd. The attributable equity interests held by the Company in other subsidiaries are the same as at 31 December 2006 except for those new established company in year 2007.

Note 2: The Company directly holds the interest in China Dragon Development and China Dragon Investment. All other interests shown above are indirectly held by the Company.

None of the subsidiaries had issued any debt securities at the end of the year.

37. EVENTS AFTER THE BALANCE SHEET DATE

On 25 March 2008, the directors proposed a final dividend of HK$0.12 (Equivalent to RMB0.11) per share to the shareholders on the register of members on 11 April 2008, amounting to approximately HK$131 million (Equivalent to RMB112 million).

Appendix

SUMMARY OF FINANCIAL INFORMATION

A summary of the results, assets and liabilities of the Group for the last five financial years is as follows:

Result

	For the year ended 31 December				
	2003	2004	2005	2006	**2007**
	RMB'000	RMB'000	RMB'000	RMB'000	**RMB'000**
Turnover	1,492,245	2,108,624	2,678,496	3,717,939	**5,308,624**
Gross profit	293,960	420,021	552,562	957,071	**1,191,569**
Cost of sales	(1,198,285)	(1,688,603)	(2125, 934)	(2,760,868)	**(4,117,055)**
Other operating income	9,613	17,701	17,315	16,923	**139,241**
Administrative expenses	(28,960)	(41,203)	(69,721)	(130,032)	**(178,088)**
Selling and distribution costs	(108,628)	(160,583)	(196,785)	(198,238)	**(359,732)**
Other operating expenses	(1,649)	(1,142)	(6,792)	(9,312)	**(3,079)**
Interest on bank borrowings wholly repayable within one year	(11,308)	(20,890)	(30,757)	(20,336)	**(111,614)**
Discount on acquisition of a subsidiary	–	–	–	–	**5,833**
Profit before taxation	153,028	213,904	265,822	616,076	**684,130**
Income tax credit (expense)	(34,302)	(45,228)	(29,141)	9,272	**(54,681)**
Profit before deferred tax charge arising from the Group Reorganisation	118,726	168,676	236,681	625,348	**629,449**
Deferred tax charge arising from the group reorganisation	–	(36,771)	–	–	**–**
Profit for the year	118,726	131,905	236,681	625,348	**629,449**
Attributable to:					
Equity holder of the parent	118,726	131,905	235,906	624,154	**629,616**
Minority interests	–	–	775	1,194	**(167)**
	118,726	131,905	236,681	625,348	**629,449**
Dividends	4,647	45,435	67,684	–	**349,155**
Earnings per share – basic (RMB)	0.17	0.19	0.32	0.60	**0.59**

Assets and Liabilities

	As at 31 December				
	2003	2004	2005	2006	**2007**
	RMB'000	RMB'000	RMB'000	RMB'000	**RMB'000**
Total assets	1,182,980	1,560,242	2,074,313	2,841,808	**6,520,386**
Total liabilities	848,004	1,047,354	919,834	1,063,829	**3,702,946**
	334,976	512,888	1,154,479	1,777,979	**2,817,440**
Equity attributable to equity holders of the parent	334,976	512,888	1,152,760	1,776,914	**2,816,487**
Minority interest	–	–	1,719	1,065	**953**
	334,976	512,888	1,154,479	1,777,979	**2,817,440**

Note: The Company was incorporated in the Cayman Islands on 11 May 2004 and the results, assets and liabilities for 2003 and 2004 have been prepared on a combined basis as if the current group structure had been in existence throughout those years and have been extracted from the Company's prospectus dated 8 November 2005.