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## INDUSTRY OVERVIEW AND REGULATION

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### Overview of the PRC Automotive Industry

The PRC automotive industry began its development in the 1950s. It has since undergone several phases of expansion. The annual sales and production volume of the PRC automotive industry exceeded one million units for the first time in 1992, two million units for the first time in 2000, three million units for the first time in 2002 and four million units for the first time in 2003. The PRC automotive industry witnessed both its production and sales to exceed five million units for the first time in 2004, over 5.7 million in 2005, and over 7.2 million in 2006.

According to the China Automotive Industry Association and as illustrated in the tables below, China was the world's second largest automobile market in 2006 in terms of the number of units sold, ranking behind the United States, and the third largest automobile market in terms of automobile production during the same year.

#### Global Ranking in 2006 by Sales Volume

Rank	Country	Units sold in 2006 (millions)	Increase/ (decrease) from 2005 (percentage)
1 .....	United States	17.0	(2.2)
<b>2 .....</b>	<b>China</b>	<b>7.2</b>	<b>24.7</b>
3 .....	Japan	5.7	(1.9)
4 .....	Germany	3.8	4.4
5 .....	United Kingdom	2.7	(3.4)
	<b>Worldwide total .....</b>	<b>68.7</b>	<b>2.8</b>

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Source: 2007 China Automotive Industry Yearbook

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## INDUSTRY OVERVIEW AND REGULATION

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### Global Ranking in 2006 by Production Volume

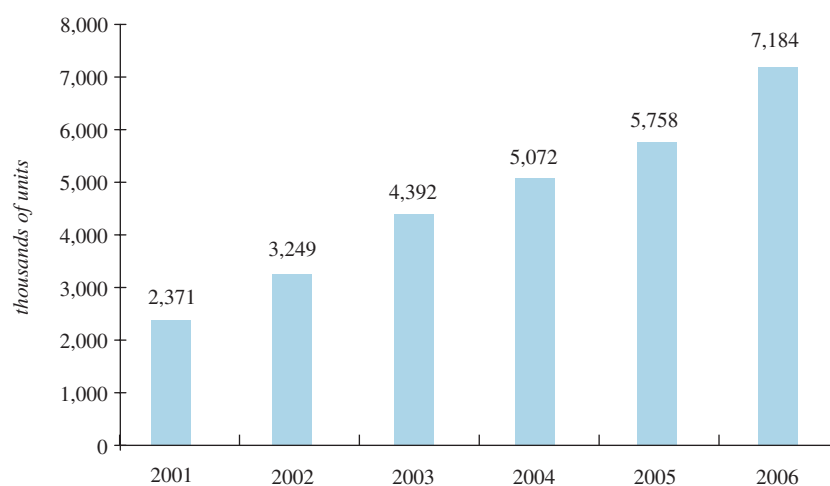
Rank	Country	Units produced in 2006 (millions)	Increase/ (decrease) from 2005 (percentage)
1 .....	Japan	11.5	6.3
2 .....	United States	11.3	(5.7)
<b>3 .....</b>	<b>China</b>	<b>7.3</b>	<b>27.3</b>
4 .....	Germany	5.8	1.1
5 .....	South Korea	3.9	4.3
<b>Worldwide total .....</b>		<b>69.2</b>	<b>4.0</b>

Source: 2007 China Automotive Industry Yearbook

According to the China Automotive Industry Association, overall automobile sales in China during 2006 reached approximately 7.2 million units, representing an increase of 24.7% over 2005. Corresponding revenues derived from sales of automobiles and automotive parts and components reached Rmb 1,529 billion, representing an increase of 27.8% over 2005. In addition, China's automobile sales have continued to grow in recent years in line with China's rapid economic growth.

The following chart illustrates the annual sales volume of automobiles in China in the periods specified.

#### Volume of Automobile Sales in China



Source: 2003, 2005, 2006 and 2007 China Automotive Industry Yearbook

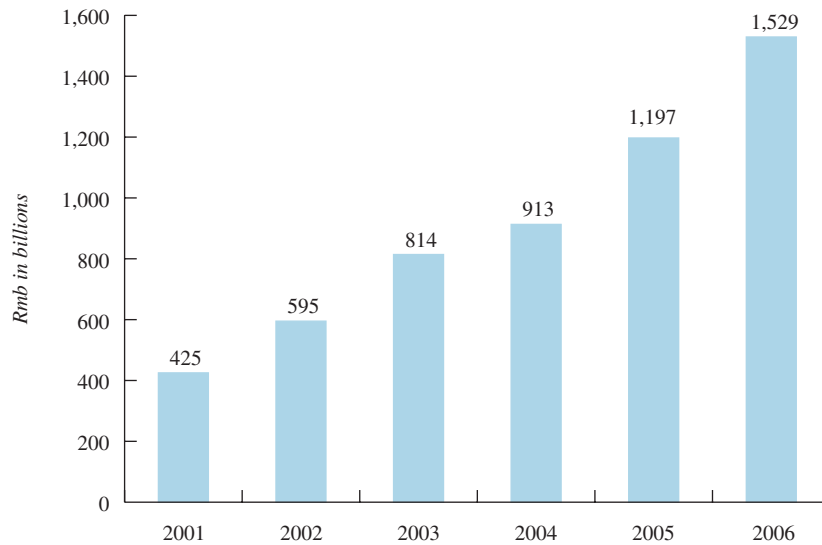
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## INDUSTRY OVERVIEW AND REGULATION

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The following chart illustrates the annual revenues derived from sales of automobiles and automotive parts and components in China in the periods specified.

**Revenues from Automobile and Parts and Components Sales in China**



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Source: 2006 China Automotive Industry Yearbook; Issue 2 of 2007 China Automotive Industry Newsletter of Production and Sales

The strong economic growth of China and the accompanying increase in fixed assets investment, improved road transportation infrastructure and the enhancement of consumer purchasing power have brought about a rapid growth in the PRC automobile market in the past five years, especially since 2002. According to the China Automotive Industry Association, China's total vehicle ownership grew at a CAGR of 12.2% from 10.4 million units in 1995 to 37.0 million units in 2006. In particular, China's total vehicle ownership in 2005 increased by 17.3% as compared to 2004 and increased by 17.1% in 2006. We believe that the PRC automobile industry will continue to grow in line with the PRC economic growth. According to the Development Research Center of the State Council, sales volume for automotive vehicles in China is expected to reach 9.4 million units in 2010, which would represent a four-year CAGR of 7.0% from 2006.

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## INDUSTRY OVERVIEW AND REGULATION

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### PRC Classification Standard of Heavy Trucks

The definition and classification of different types of trucks in the PRC truck industry have undergone some changes in 2005. Prior to 2005, trucks were generally divided into four main classes on the basis of GVW:

- heavy (trucks over 14 tonnes of GVW);
- medium (trucks between 6 and 14 tonnes of GVW);
- light (trucks between 1.8 and 6 tonnes of GVW); and
- mini (trucks under 1.8 tonnes of GVW).

Since and including 2005, China has changed its truck classification for statistical compilation. Trucks are classified as cargo trucks, truck chassis and semi-tractor trucks. Cargo trucks and truck chassis are divided into 12 classes based on their GVW while semi-tractor trucks are divided into three classes based on their trailing capacity.

The chart below illustrates the classification of heavy trucks both prior to and since 2005 in China for the purpose of this prospectus.

#### Heavy Truck Classifications in China

Years of heavy truck classification	Heavy trucks
Prior to 2005 . . . . .	Trucks over 14 tonnes of GVW (including cargo trucks, truck chassis and semi-tractor trucks)
From and including 2005 . . . . .	Cargo trucks over 14 tonnes of GVW Truck chassis over 14 tonnes of GVW Semi-tractor trucks with over 12 tonnes of trailing capacity

### Overview of the PRC Heavy Truck Industry

China's heavy truck industry began in the 1960s. A predecessor of our Parent Company produced the first heavy truck in China in 1960, the JN150 of our Huanghe series.

With the support of the PRC government, the predecessor of our Parent Company purchased the Steyr heavy truck related technologies from Steyr company in Austria in 1983, the world's leading heavy truck technology platform at that time. Heavy trucks manufactured on the basis of Steyr technologies began to be sold in the PRC market in 1989.

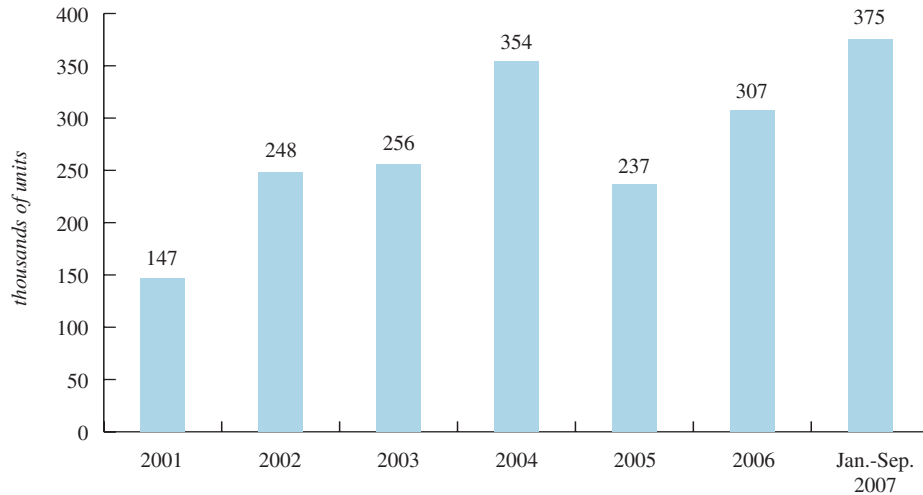
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## INDUSTRY OVERVIEW AND REGULATION

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The following diagram shows the volume of sales of heavy trucks in China during the periods specified.

**Volume of Heavy Truck Sales in China**



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*Source: 2001, 2003, 2006 and 2007 China Automotive Industry Yearbooks; Issue 10 of 2007 China Automotive Industry Newsletter of Production and Sales*

In 2004, annual sale in China of heavy trucks recorded approximately 354.1 thousand units. In 2005, the PRC government promulgated a number of policies and measures to regulate the heavy truck industry, including clamping down on overloading and standardizing the size, axle load and overall quality of heavy trucks. The uncertainties resulting from the implementation of these new policies impacted potential buyers' purchasing decisions, which directly led to a decrease in demand for heavy trucks in 2005. In 2006, the heavy truck industry began recovering and sales of heavy trucks in China reached 307.3 thousand units, representing an increase of 29.9% from 2005. For the nine months ended September 30, 2007, the sales of heavy trucks reached 374.9 thousand units.

## INDUSTRY OVERVIEW AND REGULATION

The following table sets forth production and sales information of heavy trucks in China in the periods specified. The statistics are compiled under the new classification standards adopted by the PRC automotive industry in 2005. For statistics prior to 2005, only the 2004 information is available.

### Heavy Truck Production and Sales in China

	Production								Sales							
	2004	2005	2006	Jan-Sep 2007				2004	2005	2006	Jan-Sep 2007					
(in thousands of units except percentages)																
<b>Cargo trucks and chassis</b> . . . . .	<b>256.5</b>	<b>72.6%</b>	<b>170.6</b>	<b>75.1%</b>	<b>212.6</b>	<b>70.1%</b>	<b>242.2</b>	<b>64.0%</b>	<b>254.9</b>	<b>72.0%</b>	<b>179.8</b>	<b>76.0%</b>	<b>214.6</b>	<b>69.9%</b>	<b>237.8</b>	<b>63.4%</b>
14 tonnes ≤ GVW ≤ 19 tonnes	98.8	28.0	49.3	21.7	54.4	17.4	39.6	10.5	101.1	28.5	48.5	20.5	53.5	17.4	38.6	10.3
19 tonnes < GVW ≤ 26 tonnes	80.0	22.6	74.8	32.9	115.1	37.9	136.1	35.9	83.0	23.4	75.9	32.1	116.0	37.7	133.0	35.5
26 tonnes < GVW ≤ 32 tonnes	53.5	15.1	36.9	16.2	40.4	13.3	61.3	16.2	49.3	13.9	41.0	17.3	40.5	13.2	60.6	16.2
GVW > 32 tonnes	24.3	6.9	9.7	4.2	2.7	0.9	5.2	1.4	21.5	6.1	14.4	6.1	4.7	1.5	5.6	1.5
<b>Semi-tractor trucks</b> . . . . .	<b>96.9</b>	<b>27.4</b>	<b>56.5</b>	<b>24.9</b>	<b>91.0</b>	<b>30.0</b>	<b>136.5</b>	<b>36.0</b>	<b>99.2</b>	<b>28.0</b>	<b>56.8</b>	<b>24.0</b>	<b>92.7</b>	<b>30.2</b>	<b>137.1</b>	<b>36.6</b>
12 tonnes < Trailing capacity																
≤ 25 tonnes	26.2	7.4	3.9	1.7	1.3	0.4	2.1	0.6	23.9	6.7	4.4	1.9	1.4	0.4	1.8	0.5
25 tonnes < Trailing capacity																
≤ 40 tonnes	58.8	16.6	39.2	17.3	73.1	24.1	110.8	29.3	63.3	17.9	39.2	16.6	74.6	24.3	111.2	29.7
Trailing capacity > 40 tonnes	11.8	3.4	13.4	5.9	16.5	5.5	23.6	6.2	12.1	3.4	13.2	5.6	16.7	5.4	24.0	6.4
<b>Total</b> . . . . .	<b>353.3</b>	<b>100.0%</b>	<b>227.1</b>	<b>100.0%</b>	<b>303.6</b>	<b>100.0%</b>	<b>378.6</b>	<b>100.0%</b>	<b>354.1</b>	<b>100.0%</b>	<b>236.6</b>	<b>100.0%</b>	<b>307.3</b>	<b>100.0%</b>	<b>374.9</b>	<b>100.0%</b>

Source: Issue 1 of 2006 and Issue 1 and Issue 10 of 2007 China Automotive Industry Newsletter of Production and Sales

### Factors Contributing to the Growth of the Heavy Truck Industry in China

We believe the fast growth of the PRC heavy truck market over the years is attributable to a number of factors, including the strong growth of the PRC economy, continued investment in fixed assets, improved road transportation infrastructure, increased trade activities, continued development of port terminals, increased demand from overseas markets and more stringent government regulations on truck transportation in China.

#### *Domestic economic growth*

The PRC economy has been expanding since the PRC government implemented its economic reform policies in 1978. Fixed asset investments have also been growing rapidly over the years.

The following chart illustrates China's GDP growth rate in the periods specified.

#### China's GDP Growth Rate

	2001	2002	2003	2004	2005	2006
Real annual GDP growth rate . . . . .	8.3%	9.1%	10.0%	10.1%	10.4%	10.7%

Source: National Bureau of Statistics of China

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## INDUSTRY OVERVIEW AND REGULATION

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The following chart illustrates China's fixed asset investments and their growth in the periods specified.

**China's Fixed Asset Investments and Growth**

	2001	2002	2003	2004	2005	2006
Investments in fixed assets (in billions of Rmb) . . . . .	3,721.3	4,350.0	5,556.7	7,047.7	8,877.4	10,987.0
Annual growth rate . . . . .	13.0%	16.9%	27.7%	26.8%	26.0%	23.8%

*Source: National Bureau of Statistics of China*

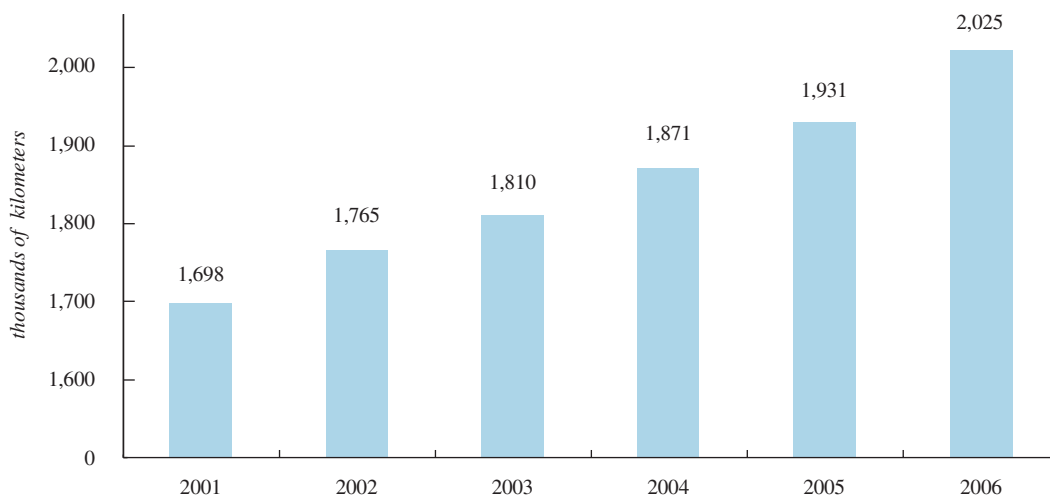
We expect that China's continued economic growth and the accompanying increase in fixed asset investments will continue to fuel the demand for heavy trucks.

### ***Improved road transportation infrastructure***

Prior to 1978 when China launched its economic reforms, goods were primarily transported through rail and waterways. Construction of modern highways began with the PRC economic reform. In the last decade, more highways (including paved roads that meet national or provincial standards, as well as high-speed expressways connecting major cities) were constructed in China. As of the end of 2006, there were approximately 2.0 million kilometers of highways, including approximately 45,000 kilometers of expressways.

The following chart illustrates the length of China's highways in the periods specified.

**China's Highways**



*Source: 2006 China Statistical Yearbook, National Bureau of Statistics of China*

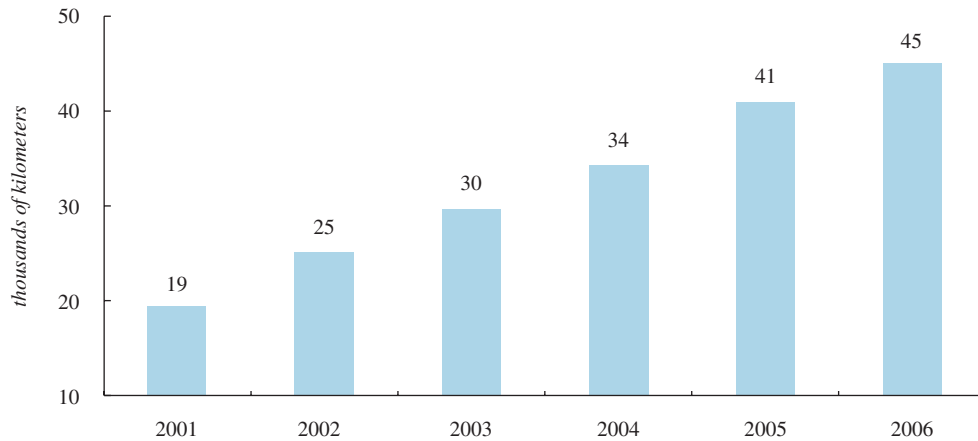
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## INDUSTRY OVERVIEW AND REGULATION

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The following chart illustrates the length of China's expressways in the periods specified.

**China's Expressways**



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*Source: 2006 China Statistical Yearbook, National Bureau of Statistics of China*

According to the PRC government's highway and expressway construction plan, the total length of China's highways and expressways are expected to reach 2.3 million kilometers and approximately 50,000 kilometers, respectively, by 2010. The Ministry of Communications aims to connect 90% of the cities with a population over 200,000 in China by highways by 2010.

The continuing efforts by the PRC government to improve its road transportation network have promoted and will continue to promote the use of road transportation, which in turn has increased the demand for long-haul transportation vehicles such as heavy trucks. Increasing domestic commerce as well as import/export activities in China have also increased freight transportation on highways in China, which has driven the demand for heavy trucks.



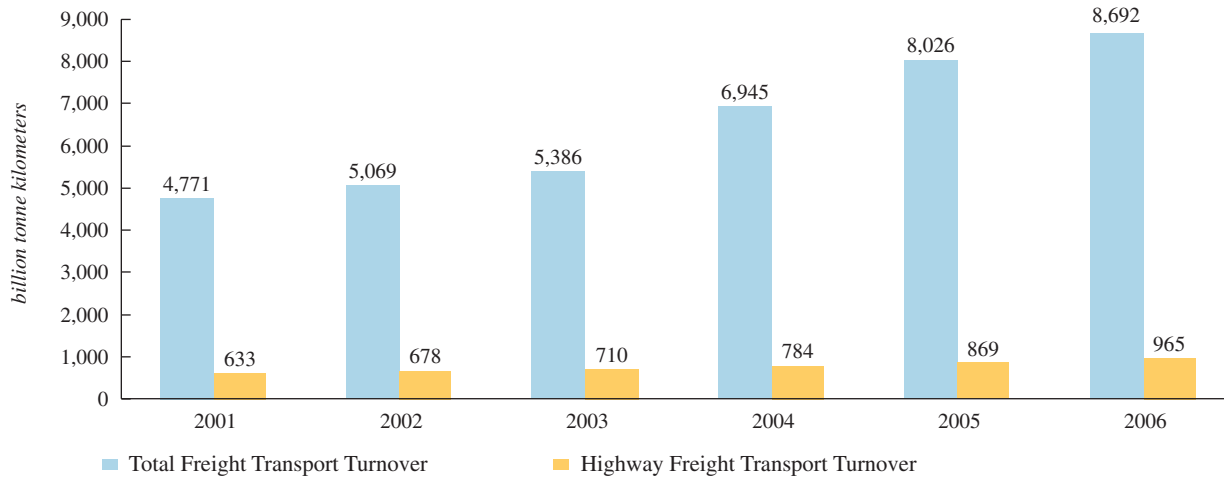
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## INDUSTRY OVERVIEW AND REGULATION

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The following chart illustrates the total freight transport turnover in China and the total highway freight transport turnover in China in the periods specified.

### China's Total Freight Transport Turnover and Highway Freight Transport Turnover



Source: 2006 China Statistical Yearbook, National Bureau of Statistics of China

### *Continued development of port terminals*

Port terminals rely on cargo trucks for transport of their general and bulk cargo and rely on semi-tractor trucks for container transport. As of December 31, 2005, there were 3,641 major coastal berths and 7,011 major inland river berths in China. As of the same date, China had the largest container throughput in the world with 75.8 million of twenty-foot equivalent units, or TEUs, of throughput in 2005. With a total of over 1,400 ports in China, including both coastal ports and inland river ports, China handled an aggregate of 4.8 billion tonnes of container and bulk and general cargo in 2005 in terms of cargo throughput. According to the Ministry of Transportation, the PRC government intends to increase its port cargo to 6.1 billion tonnes by 2010. We believe that further development of China's port facilities and increased import and export activities will continue to generate demand for heavy trucks.

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## INDUSTRY OVERVIEW AND REGULATION

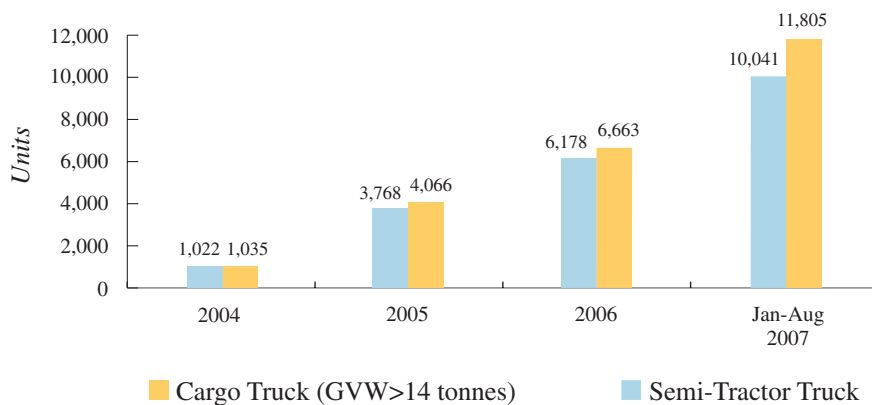
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### *Increased demand from overseas markets*

Since some of the PRC heavy truck manufacturers imported technologies from foreign manufacturers, such as Sinotruk Group's acquisition of the Steyr technologies in the 1980s, they have over the years further innovated such technologies to adapt for trucks used under the PRC road conditions. Such innovations have led to increasing improvement in the quality of domestically made products, as well as the continuous reduction in manufacturing cost. Heavy trucks made in China began to enter into some overseas markets with similarities with the PRC market in terms of customer needs, requirement and purchasing power. The increasing demand for heavy trucks from overseas markets in the coming years is expected to benefit many domestic heavy truck producers.

The following chart illustrates the export volume of heavy trucks in the periods specified. The information includes cargo trucks of GVW over 14 tons and semi-tractor trucks with over 12 tonnes of trailing capacity, but excludes truck chassis due to unavailability of such information.

**China Heavy Truck Export Volume**



Source: Issue 2 of 2005, Issue 2 of 2006 and Issue 2 and Issue 10 of 2007 China Automotive Industry Newsletter of Production and Sales

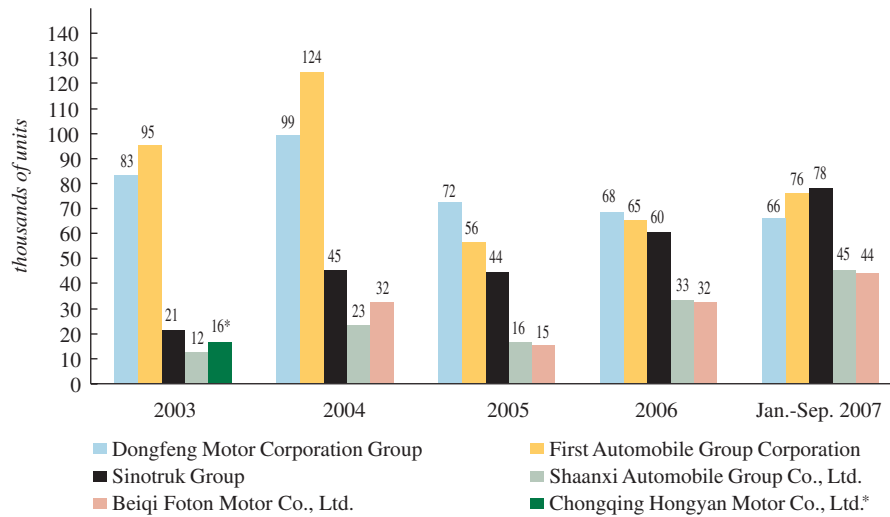
### **Industry Characteristics and Competition**

According to the China Automotive Industry Association, by the end of 2006, there were approximately 22 heavy truck manufacturers in China, with Dongfeng Motor Corporation Group, First Automobile Group Corporation, Sinotruk Group, Shaanxi Automobile Group Co., Ltd. and Beiqi Foton Motor Co., Ltd. as the top five players in China. According to the China Automotive Industry Association, these five group manufacturers had a combined market share of 82.5% in the PRC heavy truck market in terms of sales volume for the nine months ended September 30, 2007, reflecting the relatively high market concentration. Industry statistics relating to any truck maker in China is group-based and includes its affiliates.

## INDUSTRY OVERVIEW AND REGULATION

The following table sets forth the top five heavy truck group manufacturers in China with respect to their market share in terms of heavy trucks sold in the periods specified.

### Sales Volume of Top Five Heavy Truck Manufacturers in China

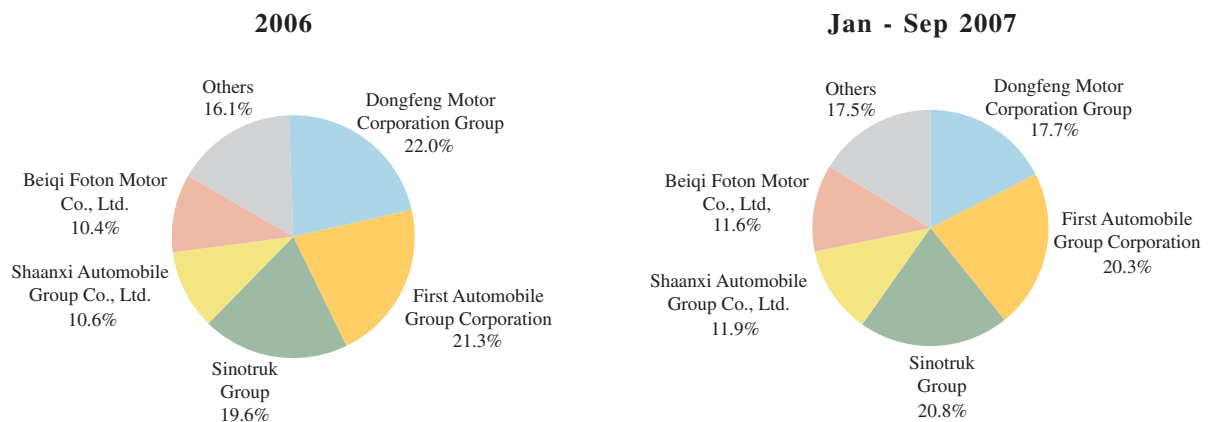


Source: Issue 1 of 2004, Issue 1 of 2005, Issue 1 of 2006, Issue 1 and Issue 10 of 2007 China Automotive Industry Newsletter of Production and Sales

\* In 2003, Chongqing Hongyan Motor Co. Ltd. was ranked the fifth among PRC heavy truck manufacturers. Since 2004, Beiqi Foton Motor Co., Ltd. took its place and became one of the top five manufacturers.

The following diagrams shows the market share in terms of sales volume of heavy trucks by China's top five heavy truck manufacturer groups. The market share of Sinotruk Group increased from 5.2% in 2001 to 18.6% in 2005 to 19.6% in 2006 and to 20.8% for the nine months ended September 30, 2007.

### Market Share of Major Manufacturers of Heavy Trucks in China



Source: Issue 1 of 2006, Issue 1 and Issue 10 of 2007 China Automotive Industry Newsletter of Production and Sales

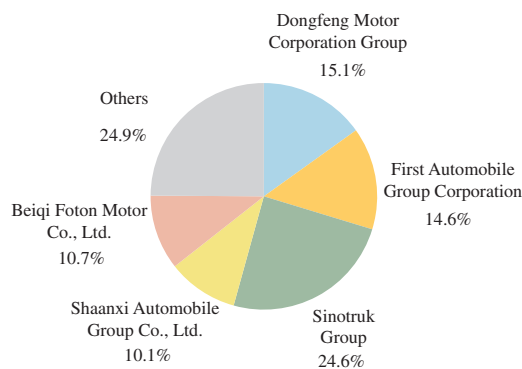
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## INDUSTRY OVERVIEW AND REGULATION

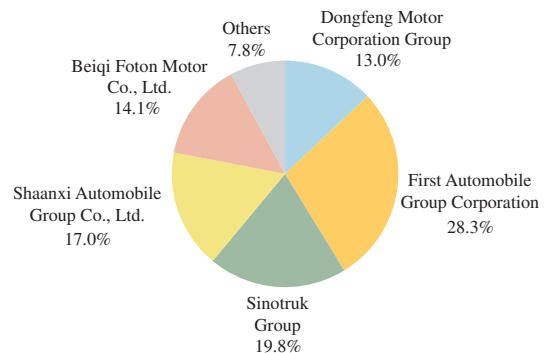
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Heavy trucks with higher GVW are gaining more market share in China in recent years. According to the China Automotive Industry Association, cargo trucks and chassis with GVW over 19 tonnes accounted for 60.3%, 73.0%, 75.1% and 83.8% of the total sales volume of cargo trucks and chassis for 2004, 2005, 2006 and the nine months ended September 30, 2007 respectively, while semi-tractor trucks with over 25 tonnes of trailing capacity accounted for 75.9%, 92.2%, 98.5% and 98.7% of the total sales volume of semi-tractor trucks during the same periods. We believe that the market changes reflect the increasing demand for heavy trucks with higher loading capacities.

**Market Share of Top Five Manufacturers of Cargo Trucks and Chassis with GVW Over 19 Tonnes Jan.-Sep. 2007**



**Market Share of Top Five Manufacturers of Semi-Tractor Trucks with Over 25 Tonnes Trailing Capacity Jan.-Sep. 2007**



Source: China Automotive Industry Association

### Regulations

The PRC government administers its regulation of the automotive industry primarily through:

- NDRC;
- State Administration on Quality Supervision, Inspection and Quarantine; and
- State Environmental Protection Administration.

Each agency has a different mandate to regulate the PRC automotive industry. NDRC is in charge of making the overall policy and mid-term to long-term development plan of the automotive industry in China; the State Administration on Quality Supervision, Inspection and Quarantine focuses on product quality control; and the State Environmental Protection Administration regulates the levels of vehicle emissions and discharges.

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## INDUSTRY OVERVIEW AND REGULATION

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### *Industrial policies for the automotive industry*

In 1994, the PRC government issued the Industrial Policy for the Automotive Industry as an overall policy guideline for automotive industry in China. Although the industry policy did not constitute a “law” or “regulation” in its formal sense, it constituted the corner stone of the overall regulatory regime of the PRC automotive industry.

In 2004, the PRC government issued the Automotive Industry Development Policy to replace the 1994 automotive industry policy. The 2004 new policy, on the one hand, encourages the establishment of several internationally competitive automotive manufacturing companies in China before 2010 and, on the other hand, aims to avoid over capacity and establishment of automotive manufacturers that lack economies of scale. As a result, the policy increased the entry barriers for the automotive industry in China.

Key objectives of the Automotive Industry Development Policy include the following:

- to establish a healthy domestic automotive industry with a comprehensive regulatory system including mandatory administrative regulations and technical specifications and create a fair and competitive market environment;
- to encourage the development of the domestic automotive industry and to make China a major automotive manufacturing country by 2010;
- to encourage domestic automobile manufacturers to increase their research and development efforts, develop proprietary technologies and establish their brand image and value; and
- to expand the scale and efficiency of domestic automotive industry, to encourage industry consolidation and develop a few large-scale domestic automotive manufacturers ranked among the Fortune 500 companies in the world by 2010.

The Automotive Industry Development Policy also contains various entry requirements, including the following:

- a minimum investment of Rmb 2 billion for a new automobile manufacturing project with at least Rmb 800 million of the investment financed by unencumbered funds from the investor in the project, of which a minimum investment of Rmb 500 million is for establishing research and development facilities;
- a minimum investment of Rmb 1.5 billion for a new engine manufacturing project, with at least Rmb 500 million of the investment financed by unencumbered funds from the investor in the new project;
- a minimum investment of Rmb 1.5 billion by an existing automobile manufacturer that wishes to invest in a new manufacturing project to produce complete vehicles in a category different from those it currently manufactures, provided that it has an asset/liability ratio of 50% or above and an AAA credit rating from a qualified PRC rating agency;

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## INDUSTRY OVERVIEW AND REGULATION

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- where an existing automobile manufacturer wishes to set up a new manufacturing facility to produce sedan cars or other passenger vehicles in a category different from those it currently manufactures, it must have an accumulated net profit for the past three financial years over Rmb 1.0 billion, an asset/liability ratio of 50% or above and an AAA credit rating from a bank;
- any new manufacturing facility for heavy trucks or passenger vehicles must also be able to manufacture engines for its vehicles and have a minimum production capacity of 10,000 heavy trucks, 50,000 passenger vehicles with four-cylinder engines, or 30,000 passenger vehicles with six-cylinder engines;
- in the case of joint ventures the PRC joint venture partner must hold a minimum of 50% of the equity interest in a joint venture manufacturing whole vehicles, specialty vehicles, agricultural transport vehicles and motorcycles; and to the extent that any equity interest in such joint venture is sold to other investors, the PRC partner must remain a majority equity holder of the company after the sale; and
- any foreign company and its affiliates may establish no more than two automobile manufacturing joint ventures in China that produce the same type of complete vehicles.

### *Manufacturers' qualification and compulsory authentication of automotive products*

Since January 1, 2001, all PRC automobile manufacturers (including Sino-foreign joint ventures) and all models of vehicles to be manufactured by them must be registered in the Public Notice of Automotive Vehicle Manufacturers and Products released by the National Economic and Trade Commission (which later became NDRC). A vehicle with any different feature, such as different types of engines, cabins configurations, is classified as a separate model for NDRC registration purposes. Such notices by NDRC entitle the automobile manufacturer to legally manufacture and sell its registered automotive products in China. In order to register under NDRC's approved list, all vehicles and automotive products subject to registration applications must pass government-regulated tests for compliance with various safety standards, technical specifications and environmental protection requirements. The PRC public security authorities process the licensing of the registered vehicles and automotive products. Licenses will only be issued to qualified vehicles and automotive products.

The State Administration on Quality Supervision, Inspection and Quarantine is charged with the administration of automotive product quality certification. According to the Administrative Rules for Compulsory Product Certification issued by the State Administration on Quality Supervision, Inspection and Quarantine in 2001, automotive products, including imported vehicles and parts and components, are subject to compulsory certification conducted by government-designated certification agencies for compliance with various safety and technical standards and requirements. An automotive product may be sold in China or imported into China only after passing such an authentication and issued with a China Compulsory Certification. This is commonly known as a 3C or CCC certification.

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## INDUSTRY OVERVIEW AND REGULATION

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The PRC government may also remove automotive products from the catalog if the government determines that such automotive products no longer meets the relevant regulatory requirements. Such removal will deprive the relevant manufacturer of its right to continue to manufacture or sell the removed automotive products in China.

### *Emissions and pollution*

The PRC government has adopted various measures to institute a uniform supervision and administration system in China with respect to vehicle emissions, including an automotive product authentication procedure and a network of testing centers across China. The State Environmental Protection Administration from time to time publishes notices to inform the public of new vehicle models that comply with its regulatory emission standards. Automobile manufacturers are not allowed to produce or register any vehicle model or automotive product that has failed to comply with such regulatory emission standards.

The State Environmental Protection Administration limits exhaust emission on the basis of China I, II, III and IV. Different limits of exhaust emission and testing measures in these standards shall be applied to different types of vehicles.

As of September 1, 2003, the PRC government ceased to follow China I Standards and began to implement China II Standards. The PRC government began implementing China III Standards in selected cities, such as in Beijing in December 2005 and Guangzhou in September 2006. The State Environmental Protection Administration has announced that all newly produced vehicles are expected to be in compliance with China III Standards in 2008. The PRC government intends to further implement China IV Standards starting January 1, 2010. These higher emission standards will impose substantially higher compliance expenditures on the PRC automotive manufacturers, including research and development costs, to satisfy more complex engine and vehicle design and engineering requirements.

### *Automobile sales and after sales services*

Effective April 1, 2005, the PRC government started to implement its regulation on automobile sales by brand. This regulation, entitled Implementation Method on Administration of Automobile Brand-Specific Sales, initially applied to passenger vehicles only. Starting from December 1, 2006, it became applicable to all automotive vehicles, including trucks, except for specialty vehicles. This regulation requires vehicle dealers in China to be authorized by relevant automobile manufacturers in order to market and sell the vehicles made by such manufacturers. Dealers must apply for registration with the relevant PRC administration of industry and commerce agencies as authorized dealers of relevant automobile manufacturers.

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## INDUSTRY OVERVIEW AND REGULATION

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Furthermore, all automobile manufacturers are required to maintain an appropriate size of sales and service network and, specifically, to establish an after-sales station and parts supply store within 150 kilometers radius of a sales outlet. Furthermore, automobile manufacturers are required to provide necessary marketing, after-sales, and technical support and training to authorized dealers. An automobile manufacturer cannot directly sell automobiles within the same geographic areas covered by an authorized dealer except as otherwise agreed in the distribution agreement with that dealer.

### *Import quotas and tariffs*

Subsequent to China's entry into the WTO in 2001, the PRC government began to take measures to eliminate, reduce or readjust its import quota and tariffs to comply with its WTO commitments. In relation to heavy truck tariffs:

- China has eliminated any import quota for complete heavy trucks since January 1, 2005;
- China has reduced its import tariffs to 20% for certain complete heavy trucks (with GVW of 14 to 20 tonnes) since January 1, 2004; and
- China has reduced its import related tariffs to an average of 10% for automotive parts and components since July 1, 2006.

However, as China's WTO commitments distinguish complete automobiles from automotive parts and components for import quota and tariff purposes, China is currently engaged in consultation with the United States and the European Union on whether imported parts and components that constitute over 60% of the value of a complete vehicle should be treated as import of complete trucks, which has higher tariffs than imported parts and components. If China cannot reach an agreement with the United States and the European Union, the parties may resort to dispute resolution mechanisms within the WTO.

As the prices of imported complete vehicles and parts and components are substantially higher than the prices of domestic manufactured products, we believe that the abolition of import quotas and tariffs has limited effect on domestic heavy truck manufacturers.



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## INDUSTRY OVERVIEW AND REGULATION

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### *Anti-overloading policies and regulations on vehicle measurements*

The PRC government has promulgated regulations on vehicle specifications and anti-overloading policies to which we are subject. The relevant policies and regulations include the following:

- According to mandatory requirements under the Restrictions on Vehicle Frame Specifications, Axle-Capacity and GVW published in 2004, the maximum GVW for cargo trucks and semi-tractor trucks cannot exceed the aggregate supporting-capacity of its axles or the permissible maximum designed GVW, whichever is lower. The following table illustrates some maximum GVW relevant to our products:

	<u>Maximum GVW (tonnes)</u>
Two-axle cargo truck . . . . .	16
Three-axle cargo truck . . . . .	25
Four-axle cargo truck . . . . .	31
Two-axle semi-tractor truck . . . . .	18
Three-axle semi-tractor truck . . . . .	25

- In 2005, the Ministry of Communications, together with other relevant government authorities, promulgated the 2005 Anti-Overloading Guidelines to clamp down on widespread overloading activities such as mislabeling of the designed load capacity by vehicle manufacturers and illegal modifying of vehicles by users to increase load capacity.