You should read this section in conjunction with our consolidated financial information, including the accompanying notes, in the Accountants' Report in Appendix I to this prospectus. Our consolidated financial information as of and for each of the three years ended December 31, 2004, 2005 and 2006 and as of and for the nine months ended September 30, 2007 were prepared in accordance with HKFRS, which may differ in material respects from generally accepted accounting principles in other jurisdictions.

The following discussion contains certain forward-looking statements that involve risks and uncertainties. Our future results could differ materially from those discussed below as a result of various factors, including those set forth under "Risk Factors" and elsewhere in this prospectus.

Overview

We, together with our Parent Company, are the largest heavy truck manufacturer in China as measured by sales volume for the nine months ended September 30, 2007. According to the China Automotive Industry Association, Sinotruk Group increased its market share from approximately 8.2% in 2003 to 20.8% for the nine months ended September 30, 2007 in terms of the aggregate sales volume of heavy trucks in China. We contributed approximately 95.4%, 85.3%, 90.5% and 90.1% of Sinotruk Group's total volume of heavy trucks for 2004, 2005, 2006 and the nine months ended September 30, 2007, respectively.

We enjoy widespread brand recognition in the PRC automotive industry and a growing reputation overseas. The predecessor to our Parent Company was the first domestic manufacturer of heavy trucks and built China's first heavy truck in 1960. We utilize heavy truck technologies that originated in Europe. Through years of research and innovation, we have developed various proprietary technologies and processes that have enabled our products to meet the needs of our customers in target markets. We market our products under the brand name "中國重汽" (China Heavy Truck) in Chinese and "SINOTRUK" in English, which evokes our status as a dedicated manufacturer of heavy trucks in China. In October 2006, our brand was awarded as one of the top 10 PRC brands by the World Confederation of Productivity Science.

We specialize in the research, development and manufacturing of heavy trucks and related key parts and components, including cabins, engines and axles. Our principal products, under the current PRC industry standard, include cargo trucks and truck chassis with GVW over 14 tonnes as well as semi-tractor trucks with trailing capacity over 12 tonnes. Our major product series include HOWO, Sitaier King, Sitaier and Huanghe, each of which is further divided into various subseries to target different sectors of our product market. Over the years, we have registered with the PRC government more than 2,000 models, as classified under the PRC automotive industry regulations. Through our diverse product portfolio, we service a wide range of customers from all major industries that utilize heavy trucks, including infrastructure, construction, container transportation, logistics, mining, steel and chemical industries.

For 2004, 2005, 2006 and the nine months ended September 30, 2007, our revenues were approximately Rmb 10,163.6 million, Rmb 9,114.4 million, Rmb 12,767.5 million and Rmb 16,141.4 million, respectively, and net profits attributable to our equity holders were Rmb 301.3 million, Rmb 77.9 million, Rmb 638.5 million and Rmb 831.6 million, respectively.

The following table presents our selected consolidated financial data as of and for the years ended December 31, 2004, 2005, 2006 and the nine months ended September 30, 2006 and 2007.

	Year ended December 31,			Nine months ended September 30,	
	2004	2005	2006	2006	2007
				(unaudited)	
	(Rmb in thousands)				
Selected Consolidated Income Statement Information					
Revenue	10,163,580	9,114,437	12,767,450	9,092,213	16,141,370
Cost of sales	(8,694,750)	(7,983,012)	(10,529,568)	(7,504,091)	(13,184,227)
Gross profit	1,468,830	1,131,425	2,237,882	1,588,122	2,957,143
Distribution costs	(334,572)	(427,401)	(649,904)	(463,666)	(778,269)
Administrative expenses	(529,834)	(497,995)	(638,673)	(468,069)	(604,698)
Other gains — net	153,318	88,489	372,555	347,674	114,224
Operating profit	757,742	294,518	1,321,860	1,004,061	1,688,400
Finance costs — net	(206,141)	(58,556)	(135,202)	(78,296)	(73,492)
Profit before income tax	551,601	235,962	1,186,658	925,765	1,614,908
Income tax expense	(189,950)	(112,357)	(406,775)	(312,056)	(540,980)
Profit for the period	361,651	123,605	779,883	613,709	1,073,928
Attributable to:					
Equity holder of our company	301,323	77,869	638,465	523,470	831,568
Minority interests	60,328	45,736	141,418	90,239	242,360

	As of December 31,			As of September 30,
	2004	2005	2006	2007
	(Rmb in thousands)			
Selected Consolidated Balance Sheet Information				
Assets				
Non-current Assets	2,156,060	2,952,193	3,090,734	3,742,977
Current Assets	9,307,988	12,821,107	12,447,254	11,213,722
Total Assets	11,464,048	15,773,300	15,537,988	14,956,699
Equity and Liabilities				
Total Equity	(1,288,192)	(1,402,613)	1,585,033	2,656,617
Non-current Liabilities	2,173,466	1,957,167	506,463	1,768,083
Current Liabilities	10,578,774	15,218,746	13,446,492	10,531,999
Total equity and liabilities	11,464,048	15,773,300	15,537,988	14,956,699

Basis of Presentation

Our financial information has been prepared as a combination of business under common control in a manner similar to a pooling of interest. Our financial information presents our results of operations as if we had been in existence since January 1, 2004 and as if our Reorganization, which was effective on June 30, 2006, had been completed as of January 1, 2004. Although we entered into a trust agreement with Weichai Factory in 2004 regarding the daily operations of Hangzhou Engine Factory, we retained ultimate ownership of Hangzhou Engine Factory and exercised effective control over the financial policies of Hangzhou Engine Factory during the Track Record Period, including during the term of the trust agreement with Weichai Factory from September 2004 to December 2005. Our effective control over Hangzhou Engine Factory was demonstrated by our approval of the appointment of the head of Hangzhou Engine Factory, as well as our required approval of its business plan. Hangzhou Engine Factory's key personnel were also appointed by us prior to the trust arrangement, and a majority of such personnel continued to serve in their appointed capacities during the trust period. DeHeng Law Offices, our PRC legal counsel has opined that, notwithstanding the trust arrangement, we have had legal and effective control over Hangzhou Engine Factory during the term of the trust agreement.

In connection with the Reorganization, the following businesses were transferred to us:

- substantially all of the manufacturing and sale of heavy trucks and related parts and components; and

- the provision of services related to our business.

The assets and liabilities transferred to us have been stated at historical carrying amounts and are referred to as the Listing Business in this prospectus.

As part of the Reorganization, the following businesses were not transferred to us but were retained by our Parent Company:

- the manufacturing and sale of specialty vehicles and passenger vehicles, and the assets and liabilities related to these operations;
- equity interests in certain companies not strategically complementary to our business, which mainly comprised companies engaged in property development and the provision of loan guarantee services; and
- auxiliary facilities such as schools and hospitals.

These businesses and operations were not acquired by us pursuant to the Reorganization because they are in dissimilar businesses and operations as compared with us. Accordingly, they have not been included in our financial information throughout the relevant periods as they had distinct and separate management personnel, maintained separate accounting records and have been historically financed as if they were autonomous. These businesses and operations are referred to as the Non-Listing Business in this prospectus.

In order to streamline the operations of the Listing Business, certain of our assets and liabilities were transferred to or retained by the Parent Company pursuant to the Reorganization Agreement dated April 2, 2007. These assets and liabilities were historically associated with and formed an integral part of the Listing Business. These transferred/retained assets and liabilities do not operate autonomously and do not constitute separable business units of our group. They do not constitute standalone businesses and did not have standalone profit and loss accounts and cash flow statements during the relevant Track Record Period. The Directors consider that our group has sufficient financial resources and assets to carry out the Listing Business in the foreseeable future and the transfer or retention, as applicable, would not curtail the Listing Business's operations. After corroborating the above facts, it is considered that the transferred or retained assets and liabilities have no impact for the purpose of Listing Rules 8.05(1)(a) on the profit requirement. In selecting the assets and liabilities to be transferred/retained, we considered the following:

- Assets that will not be utilized by the Listing Business after the Listing will be transferred to or retained by the Parent Company; and
- Liabilities where legal obligations rest with the Parent Company and that will no longer be associated with the Listing Business after the Listing will be transferred to or retained by the Parent Company.

The transferred/retained assets and liabilities were transferred out based on their carrying value in the accounting record of the respective company pursuant to the clauses set out in the Reorganization Agreement. Accordingly, for the purpose of preparing the consolidated financial statements for inclusion in the prospectus, the transferred/retained assets and liabilities were segregated from our books and records based on the carrying amounts of the individual assets and liabilities recorded in the general ledger of the respective company and the effect of the transfer (liabilities net of assets) was reflected as a capital contribution from the Parent Company.

Details of the assets and liabilities transferred/retained are as follows:

	Assets and liabilities transferred to the Parent Company	Assets and liabilities retained by the Parent Company	Total
		(Rmb in thousands)	
ASSETS			
Non-current assets			
Property, plant and equipment[(1)]	48,159	412,348	460,507
Deferred income tax assets[(2)]	88,624	119,439	208,063
	136,783	531,787	668,570
Current assets			
Inventories[(3)]	—	34,842	34,842
Trade and other receivables[(4)]	—	121,722	121,722
Amounts due from related parties[(5)]	—	1,157,475	1,157,475
Restricted cash[(6)]	—	1,538,192	1,538,192
Cash and cash equivalents[(7)]	—	58,828	58,828
	—	2,911,059	2,911,059
LIABILITIES			
Non-current liabilities			
Borrowings[(8)]	—	600,000	600,000
Other long-term payables[(9)]	—	20,000	20,000
Termination benefits, post-employment benefits and medical insurance plan[(10)]	477,810	54,490	532,300
	477,810	674,490	1,152,300
Current liabilities			
Trade and other payables[(11)]	—	3,372,058	3,372,058
Borrowings[(12)]	—	888,738	888,738
Amounts due to related parties[(13)]	—	278,218	278,218
Provisions for other liabilities and charges[(14)]	—	7,953	7,953
	—	4,546,967	4,546,967
MINORITY INTERESTS[(15)]	17,906	—	17,906
Net contributions from the Parent Company	323,121	1,778,611	2,101,732

The following is a description of assets and liabilities transferred to, or retained by, the Parent Company that corresponds to the numbering in the table above:

(1) Property, plant and equipment of approximately Rmb 460.5 million including the following:

a) Transferred property, plant and equipment of approximately Rmb 48.2 million consisting of:

i. Buildings of approximately Rmb 46.2 million originally held by Sinotruk Jinan Commercial Truck Company, which were transferred to the Parent Company on June 30, 2006. These buildings are located in the areas to be rezoned for non-industrial use according to the new zoning regulations of Jinan municipal government. As a heavy truck manufacturer, we primarily use this land and the buildings on it for industrial purposes. As a result, it was not possible for our Parent Company to obtain all the necessary consents and approvals from relevant government authorities to transfer these land and buildings to us. To solve this re-zoning issue, we plan to relocate the production facilities of Sinotruk Jinan Commercial Truck Company to the Zhangqiu district in Jinan by 2008. Upon such relocation, the original buildings will no longer be used by Sinotruk Jinan Commercial Truck and therefore we have transferred such buildings to the Parent Company. While we plan to relocate our manufacturing facilities from these rezoned areas to new locations, we will need to continue our daily operations at the current sites until the completion of the relocation. Pending the construction of the new plants and the completion of the relocation, the aforementioned buildings are being leased by our Parent Company to Sinotruk Jinan Commercial Truck Company.

ii. Buildings of approximately Rmb 1.9 million originally held by Sinotruk Finance Company, which were primarily used for staff quarters. As we will provide rental allowances to staff instead of providing staff quarters after the Listing, we decide to transfer these buildings to the Parent Company for other use.

b) Retained property, plant and equipment of approximately Rmb 412.3 million consisting of:

i. Buildings of approximately Rmb 79.6 million originally held by Hangzhou Engine Factory, which were not injected to Sinotruk Hangzhou Engine upon its establishment in April 2006 because these buildings are located in the areas to be rezoned for non-industrial use according to Hangzhou city's new zoning regulations and our primary use of the land on which these buildings are located will no longer meet the non-industrial use requirements. As it was not possible for our Parent Company to obtain all necessary governmental consents and approvals to transfer these land and buildings to us, we are currently in the process of relocating Sinotruk Hangzhou Engine to the Xiaoshan district in Hangzhou, and Sinotruk Hangzhou Engine will no longer use these land and buildings for its productions after its relocation . Such relocation is expected to be completed by mid-2008. Pending the completion of the relocation, Sinotruk Hangzhou Engine needs to continue its daily operations at the current sites by leasing the aforementioned from the Parent Company until the relocation is completed;

ii. Construction-in-progress of approximately Rmb 190.0 million. During the Track Record Period, our subsidiaries received from their respective employees advances for construction of premises used for employee housing (職工集資建房). These premises will be sold to the employees at cost upon completion of the construction by offsetting the advances from employees. As we will not maintain such arrangement upon Listing, the cost of construction which was recorded as property, plant and equipment, together with the advances from employees (see Note (11)c) below), was retained by the Parent Company;

iii. Machinery of approximately Rmb 24.6 million. This machinery was used to manufacture China I Engines (a model of engine). As the Listing Business will no longer manufacture this type of engine after the Listing, we determined to have the Parent Company retain this machinery. The Parent Company subsequently sold this machinery to third parties which provide repairs and maintenance services for this engine model;

iv. Vehicles of approximately Rmb 0.4 million. We determined to have the Parent Company to retain these vehicles as these vehicles will be used to support the auxiliary facilities retained by the Parent Company such as schools and hospitals; and

v. Buildings of approximately Rmb 117.7 million. These buildings will be used by the Parent Company as offices for the companies within the Non-Listing Business or as premises supporting the auxiliary facilities such as schools and hospitals and therefore we determined to have the Parent Company retain these buildings.

(2) Net deferred income tax assets of approximately Rmb 208.1 million, of which Rmb 88.6 million was associated with the assets and liabilities transferred to the Parent Company and Rmb 119.4 million was associated with the assets and liabilities retained by the Parent Company. Such net deferred income tax assets were calculated based on the differences between the tax base and the carrying amount of the assets and liabilities transferred or retained, multiplied by the relevant income tax rate.

(3) Inventories of approximately Rmb 34.8 million consisting of spare parts for China I Engines (a model of engine). As the Listing Business will no longer manufacture this type of engine after the Listing, we determined that these spare parts should remain with the Parent Company. These spare parts were stated at the lower of cost or net realizable value. The Parent Company subsequently sold these spare parts to third parties which provide repairs and maintenance services for this engine model.

(4) Trade and other receivables of approximately Rmb 121.7 million consisting of:

a) Net trade receivables of approximately Rmb 65.8 million due from Chongqing Hongyan, which is not a related party of the Company. As the Group has ceased doing business with Chongqing Hongyan since 2006 and such trade receivables will not relate to the Listing Business going forward, we determined to have the Parent Company retain these trade receivables. These trade receivables were subsequently settled with our Parent Company.

b) Net trade receivables of approximately Rmb 13.8 million primarily arising from the sale of China I Engine. As the Listing Business will no longer manufacture this type of engine after the Listing (see Note (3) above), we determined to have the Parent Company retain the related trade receivables. Most of these trade receivables were subsequently settled by the Parent Company.

c) Other receivables of approximately Rmb 42.1 million, primarily arising from the cash advance to third parties. As we do not intend to maintain such cash advances to third parties by the Listing Business, we determined that these receivables be retained by the Parent Company.

(5) Amounts due from related parties of approximately Rmb 1,157.5 million. These amounts solely consist of receivables from the Non-Listing Business. As such, we determined to have these receivables retained by the Parent Company. As a result, we no longer have these amounts due from related parties.

(6) Restricted cash of approximately Rmb 1,538.2 million, comprising mainly (i) security deposits of Rmb 1,315.7 million for notes payables; and (ii) bank deposits of Rmb 221.5 million pledged for borrowings. As the related facilities were retained by the Parent Company (see Note (8) and Note (11)(a) below), the related restricted cash was also retained by the Parent Company.

(7) Cash and cash equivalents of approximately Rmb 58.8 million. These cash and cash equivalents were deposited in bank accounts held in the name of the Parent Company and therefore were retained by the Parent Company to finance the Parent Company's short-term cash flow needs.

(8) Bank borrowings of approximately Rmb 600 million borrowed by the Parent Company. As the legal obligations of such bank borrowings rest with the Parent Company, and we will arrange our own banking facilities and credit lines upon the Listing, we determined to have the Parent Company retain such bank borrowings. Retaining these bank borrowings by the Parent Company is also considered to be an alternative method of cash injection by the Parent Company to the Listing Business.

Of these bank borrowings, Rmb 340 million was guaranteed by Sinotruk Finance Company (a company within the Listing Business) and Rmb 260 million was guaranteed by an unrelated third party. In April 2007, the guarantee provided by Sinotruk Finance Company was released by the relevant banks.

(9) Other long-term payables of approximately Rmb 20.0 million, representing payables to Xi'an Airplane Industry Group Finance Company, arising from the inclusion of Sinotruk Finance Company in Sinotruk Group in 2004. Such payables were retained with the Parent Company as the legal obligation rested with the Parent Company.

(10) Non-current liabilities of approximately Rmb 532.3 million arising out of termination benefits, post-employment benefits and medical insurance plan in connection with certain retired and early retired employees being transferred to or retained by the Parent Company. As these employees will not provide services to us after the Reorganization, their related termination benefits, post-employment benefits and medical insurance plan liabilities were transferred to / retained by the Parent Company.

(11) Trade and other payables of approximately Rmb 3,372.1 million consisting primarily of:

a) Notes payables of approximately Rmb 2,435.0 million held under the name of the Parent Company. As the legal obligations of such notes payables rest with the Parent Company, and we will arrange our own credit facilities upon the Listing, we determined to have the Parent Company retain such notes payables. The restricted cash used to secure these notes payables were also retained by the Parent Company (see Note (6) above).

b) Trade payables of approximately Rmb 61.3 million. These trade payables primarily arose from sale of China I Engine. As the Listing Business will no longer manufacture this type of engine after the Listing (see Note (3) above), we determined that these related trade payables be retained by the Parent Company.

c) Advances from employees for construction of premises of approximately Rmb 313.9 million. During the relevant periods, the Listing Business received advances from employees for construction of premises. These premises will be sold to the employees at cost upon completion of the construction by offsetting the advances from employees. As we will not maintain such arrangement upon the Listing, the advances from employees, together with the cost of construction which were recorded as property, plant and equipment (see Note (1)(b)(ii) above), were determined to be retained with the Parent Company.

d) Deposits from Weichai Factory and Weichai Power of approximately Rmb 249.9 million. As disclosed in the section entitled "History, Reorganization and Corporate Structure" in this prospectus, a trust agreement was signed by the Parent Company with Weichai Factory on September 20, 2004, pursuant to which Weichai Power was entrusted with the responsibility of managing the daily operations of Hangzhou Engine Factory, and a deposit of approximately Rmb 249.9 million was paid to the Parent Company. As such deposit will not relate to the Listing Business, and the legal obligation of such payable rest with the Parent Company, we determined that such payable be retained by the Parent Company pursuant to the Reorganization Agreement. Such deposit was repaid by the Parent Company to Weichai Factory and Weichai Power in November 2006.

e) Other miscellaneous payables in an aggregate amount of approximately Rmb 77.0 million. As the legal obligations of these other payables rest with the Parent Company, and we will arrange our own banking facilities upon the Listing, we determined to have the Parent Company retain these other payables.

(12) Short-term borrowings of approximately Rmb 888.7 million borrowed by the Parent Company. As the legal obligations of such bank borrowings rest with the Parent Company, and we will arrange our own credit facilities with banks upon the Listing, such bank borrowings were retained by the Parent Company. Retaining these bank borrowings by the Parent Company is also considered to be an alternative method of cash injection by the Parent Company to the Listing Business.

Of these bank borrowings, approximately Rmb 180.0 million was guaranteed by a company within the Non-Listing Business and Rmb 50.0 million was guaranteed by Sinotruk Jinan Axle & Transmission Company. In March 2007, the short-term borrowing of Rmb 50.0 million was repaid by our Parent Company.

(13) Amounts due to related parties of approximately Rmb 278.2 million. As the Listing Business will finance its operations through its own credit facility lines and through working capital generated from operations, these payables were retained by the Parent Company.

(14) Provision for other liabilities and charges of approximately Rmb 8.0 million, which mainly represented provision for potential claims. We have made provision for these potential claims based on our best estimate based on the legal advice we have received. These provisions were retained by the Parent Company as the legal obligation rests with the Parent Company.

(15) Minority interests in the amount of approximately Rmb 17.9 million, representing minority shareholders' share of net liabilities transferred to the Parent Company pursuant to the Reorganization. Such net liabilities consisted primarily of liabilities relating to Sinotruk Jinan Truck's post-employment benefits transferred to our Parent Company.

Our PRC legal advisers have confirmed that the Reorganization is legal and valid under PRC laws. For more detailed information on our Reorganization, please refer to the "Corporate history and reorganization" section in Appendix VII to this prospectus.

Because of the Reorganization and the transfer of assets and liabilities described above, our financial information included in this prospectus may not necessarily reflect our results of operations, financial position and cash flows had we been a separate, stand-alone entity during the periods presented. Our financial position and results of operations for the historical periods prior to June 30, 2006 may not be directly comparable to any subsequent period. The comparability of our financial position and results of operations for 2004, 2005 and 2006 is also affected by the fact that our finance company, a major segment of our operations, was only acquired in October 2004. You should read our consolidated financial statements and the accompanying notes included in the Accountants' Report in Appendix I to this prospectus for more detailed financial information.

Key Factors Affecting Our Results of Operations

The following key factors affect our financial condition and results of operations and are important to your understanding of our business:

Demand for Heavy Trucks in China. Our results of operations are affected by the demand for heavy trucks in China. Market demand for heavy trucks in China in recent years has been driven by a number of factors, including the growth of the PRC economy, the industrialization in China and an improved national highway network. Other factors, such as the macroeconomic policies of the PRC government and automotive industry regulations, have also impacted the demand for heavy trucks. For instance, overall annual sales of heavy trucks in China varied significantly from 354,000 units in 2004 to 237,000 units in 2005 and to 307,000 units in 2006 largely due to fluctuations in market demand for heavy trucks in China. In line with the general market conditions in China, our annual sales also decreased from 43,216 units of trucks in 2004 to 35,378 units of trucks in 2005 and increased to 51,573 units of trucks in 2006. These and other factors will continue to affect the market demand for our products. Any significant change in the demand for heavy trucks in China will affect our results of operations and financial condition.

Increasing Competition. We face increasing competition in the PRC heavy truck market primarily from domestic competitors, and to a lesser extent, from foreign heavy truck manufacturers. Factors that are critical to our successful competition in this market include new product design, research and development, marketing, product quality and after-sales services. Increasing competition has in the past caused, and may continue to cause, oversupply and reduced profit margins, which could adversely affect our results of operations.

Cost of Raw Materials, Parts and Components. The cost of raw materials, parts and components accounts for a significant portion of our cost of sales. Historically, price increases in raw materials such as steel have affected our gross profit. As we increase our truck production under our capacity expansion plans, we expect our requirements for raw materials, parts and components to increase. Fluctuations in the price of raw materials, parts and components will continue to have an impact on our results of operations.

Regulatory Environment of the PRC Automotive Industry. We have derived most of our revenues and profits in China, and the PRC market will continue to be our principal market. Our performance will, therefore, continue to be affected by the political, economic, legal and other developments in China. The PRC government has recently promulgated regulations on emission standards, recall of defective vehicles, anti-overloading and vehicle brand-specific sales requirements. In early 2005, the PRC government issued rules and regulations to clamp down on truck overloading and to standardize the size and axle load of heavy trucks. Such policies may affect the market demand for heavy trucks in 2005. The PRC government may impose additional or more stringent requirements, which could affect the manufacture and sale of our heavy trucks. We may incur higher production and other costs in complying with such requirements, which could adversely affect our results of operations.

Production Capacity. We are subject to capacity constraints on our production of trucks and engines. Our principal manufacturing facilities operate at full or close to full capacity during peak season. As a result, we need to increase our production capacity in order to meet market demand and grow our business. Our expansion plans contemplate the construction and relocation of our existing facilities to Zhangqiu district in Jinan and to Xiaoshan district in Hangzhou by mid 2008. Our ability to increase our production capacity will be crucial to our success in gaining market share and increasing revenue. However, if we over-expand our production capacity, our results of operations will be adversely impacted.

Corporate Income Taxation. Prior to our Reorganization, Sinotruk Group was a wholly state-owned enterprise with operations across different regions in China. Currently we are subject to the PRC corporate income tax rate of 33% except for a number of our subsidiaries. For details on our effective tax rates during the Track Record Period, please see "— Results of Operations — Income tax expense".

On March 16, 2007, the Tenth National People's Congress enacted a new Enterprise Income Tax Law, which provides for a unified income tax rate of 25% to both domestic enterprises and foreign-invested enterprises. The new tax law will become effective on January 1, 2008. As a result, the tax rate for domestic enterprises will be reduced to 25%, whereas the tax rate for foreign-invested enterprises that have enjoyed preferential tax treatment, including our sino-foreign joint venture, Jinan Fuqiang Power, will be increased to 25% upon the expiration of their preferential tax treatment. Fuqiang Power currently enjoys a preferential rate of 12% until the end of 2007. In addition, the carrying value of our deferred tax assets as of December 31, 2006 was recognized at the existing statutory income tax rate of 33%. Most of such carrying value will be realized in 2007, while the remaining portion will be realized in 2008 and will be subject to a write down due to the tax rate reduction under the new Enterprise Income Tax Law to be effective from January 1, 2008. Also, the deferred tax assets arise in 2007 will be recognized at the new statutory income tax rate of 25%. As a result, the effective tax rate for 2007 is expected to be higher than the effective tax rate supposed to be under the existing tax regime, thus adversely affecting our net profit after taxation for 2007.

Fluctuation of Foreign Exchange Rates. We procure substantially all of our requirements of raw materials and parts and components from PRC domestic suppliers denominated in Renminbi. Substantially all of our other expenditures, including utilities and salaries, are also denominated in Renminbi. Although we sell most of our products domestically, our exports have been increasing over the years. In addition, our export strategy contemplates substantial increases in our exports over the next few years. We price our exported products on the basis of their comparable domestic prices with reference to market supply and demand and pricing of comparable products in the international marketplace. To the extent that Renminbi significantly appreciates against other currencies, our revenue and profit from exports will be affected.

Interest Rates. One important source of funding for our operations is bank borrowings. As of December 31, 2004, 2005, 2006 and September 30, 2007, our outstanding bank borrowings (including short-term commercial paper and short-term bonds) were Rmb 6,356.4 million, Rmb 10,170.8 million, Rmb 8,182.9 million and Rmb 4,554.7 million, respectively. As commercial banks in China link the interest rates on their bank loans to primary rates published by the PBOC, any fluctuation in such primary rates will affect our finance costs and net profit.

Critical Accounting Policies

We prepare financial statements in accordance with HKFRS, which requires us to make judgments, estimates and assumptions that affect (i) the reported amounts of our assets and liabilities, (ii) the disclosure of our contingent assets and liabilities at the end of each fiscal period and (iii) the reported amounts of revenues and expenses during each fiscal period. We continually evaluate these estimates based on our own experience, knowledge and assessment of current business and other conditions, our expectations based on available information and other reasonable assumptions, which together form our basis for making judgments about matters that are not readily apparent from other sources. Since the use of estimates is an integral component of the financial reporting process, our actual results could differ from those estimates. Some of our accounting policies require a higher degree of judgment than others in their application.

When reviewing our financial statements, you should consider (i) our selection of critical accounting policies, (ii) judgments and other uncertainties affecting the application of such policies, (iii) the sensitivity of reported results to changes in the relevant conditions and assumptions. We believe the following accounting policies involve the most significant judgment and estimates used in the preparation of our financial statements:

Property, Plant and Equipment. Property, plant and equipment are stated at historical cost less accumulated depreciation and impairment losses, if any. We estimate residual values, useful lives and related depreciation charges for property, plant and equipment based on the historical experience of the actual residual values and useful lives of property, plant and equipment of similar nature and functions. Such estimates could change significantly as a result of technical innovations, changes in market conditions and competition. We will increase the depreciation charges where residual values or useful lives are less than previously estimated, or write off or write down technologically obsolete or non-strategic assets that have been abandoned or sold. Subsequent improvements to our property, plant and equipment are included in the asset's carrying amount or recognized as a separate asset, as appropriate, only when the future economic benefits associated with the improvement is likely to realize and the cost of the improvement can be measured reliably. All other repairs and maintenances are expensed during the financial period in which they are incurred. An impairment loss is recognized for the amount by which the asset's carrying amount exceeds its recoverable amount.

We calculate depreciation of property, plant and equipment by using the straight-line method to allocate their costs less accumulated impairment losses and their residual values over their estimated useful lives. Based on the asset type, we estimate the expected useful life of an asset as follows:

Buildings	8-35 years
Machinery	8-15 years
Furniture, fittings and equipment	4-18 years
Vehicles	8 years

We review the estimated residual values and useful lives of assets, and adjust them if appropriate, at each balance sheet date.

Inventories. Inventories are stated at the lower of cost and net realizable value. We determine cost using the weighted average method. The cost of finished goods and work in progress consists of design costs, raw materials, direct labor, other direct manufacturing costs and related production overhead (based on normal operating capacity), and does not include any borrowing costs. Net realizable value is the estimated selling price in the ordinary course of business, less applicable variable selling expenses. We write down inventories to their net realizable value based on an assessment of the realizability of our inventories. At the end of each reporting period, we carry out a comprehensive stock taking exercise. In the event that the inventory cost is higher than the net realizable value or sales price below cost due to inventory damage or obsolesce, provision for impairment of inventory is made for the difference to the extent that its carrying value is higher than the net realizable value. The identification of impairment requires the use of judgment and estimates. Where the expectation is different from our original estimate, such difference will impact carrying value of inventories and provision for write-down of inventories in the years/periods in which our estimate has been changed. In order to readily identify slow-moving and obsolete items, we conduct periodic stock takes and inventory aging reviews. See note 3(j) to Accountants' Report in Appendix I to this prospectus.

Current Income Tax and Deferred Income Tax. We are subject to income taxes in the jurisdictions where we have operations. Significant judgement is required in determining the provision for income taxes. There are many transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business. If the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the income tax and deferred tax provisions in the periods in which such determination are made. We make provisions for deferred income tax in full, using the liability method, on the temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. However, we do not account for the deferred income tax if it arises from initial recognition of an asset or liability in a transaction other than a business combination that affects neither accounting nor taxable profit or loss at the time of the transaction. We determine the deferred income tax at the tax rates applicable on the balance sheet date and expected to be applicable when the related deferred income tax asset is realized or the deferred income tax liability is settled.

We recognize deferred tax assets relating to certain temporary differences and tax losses to the extent we consider it is probable that future taxable profit will be available against which the temporary differences or tax losses can be utilized. Where the expectation is different from the original estimate, such differences will impact the recognition of deferred tax assets and taxation in the period in which our estimate is changed. Please see "— Key factors affecting our result of operations — Corporate income taxation" for the impact of the new Enterprise Income Tax Law on our deferred income tax assets effective tax rate and results of operations in 2007.

Pension Obligations. We have both defined benefit and defined contribution plans. A defined benefit plan is a pension plan that defines an amount of pension benefit that an employee will receive on retirement, usually dependent on one or more factors such as age, years of services and compensation. A defined contribution plan is a pension plan under which we pay contributions at a fixed rate into a separate entity. We have no legal or constructive obligations to pay further contributions if the entity does not hold sufficient assets to pay all employees the relevant benefits relating to their services in the current and prior periods.

The liability recognized in our balance sheet in respect of defined benefit pension plans is the present value of the defined benefit obligation at the balance sheet date less the fair value of the plan assets, together with adjustments for unrecognized actuarial gains or losses and past service costs. The defined benefit obligation is calculated annually by independent actuaries using the projected unit credit method. The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using interest rates of high-quality corporate bonds that have terms to maturity approximating to the terms of the pension liability. Actuarial gains and losses, arising from experience adjustments and changes in actuarial assumptions in excess of the greater of 10% of the value of plan assets or 10% of the present value of the defined benefit obligation, are recognized in the income statement over the employees' expected average remaining working lives.

Termination Benefits. Termination benefits are payable when we terminate employment before the normal retirement date, or whenever an employee accepts voluntary early retirement in exchange for such benefits. We recognize termination benefits when we are committed to either terminating the employment of current employees according to a detailed formal plan without the possibility of withdrawal, or providing such benefits as a result of an offer made to encourage voluntary early retirement. Early retirement benefits due in more than 12 months after our balance sheet date are discounted to present value using the same estimated discount rate as for the defined benefit plans.

Other Post-Employment Benefits. We are committed to paying fixed contributions to employees who formally retired before May 1, 2002 on a monthly basis and we have no further payment obligations towards employees who retired after May 1, 2002. However, we provided post-retirement healthcare benefits to our retirees in Jinan until March 1, 2006. The entitlement to these benefits is usually conditional on the employee remaining in service up to retirement age and the completion of a minimum service period.

The expected costs of these benefits are accrued over the period of employment using an accounting methodology similar to that for defined benefit pension plans. Actuarial gains and losses arising from experience adjustments, and changes in actuarial assumptions, are recognized in the consolidated income statement over the expected average remaining working lives of the related employees. Other key assumptions that affect the amounts of post-employment benefits recognized in the balance sheet and income statement are the salary increase rates and mortalities. The average salary increase rates we adopted were 5% to 12% for 2004, 2005 and 2006. The mortality presumption we adopted was the average life expectancy of residents in China plus two years. Any changes in these assumptions will impact the carrying amount of our other post-employment obligations. These obligations are valued annually by independent qualified actuaries.

Trade and Other Receivables. Trade and other receivables are recognized initially at fair value and subsequently measured at amortized cost using the effective interest method, less provision for impairment. A provision for impairment of trade and other receivables is established when there is objective evidence that we will not be able to collect all amounts due according to the original terms of the receivables. Significant financial difficulties of a debtor, probability that a debtor will enter bankruptcy or financial reorganization, and default or delinquency in payment are considered indicators that the trade receivable is impaired. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate. The carrying amount of the assets is reduced through the use of an allowance account, and the amount of the loss is recognized in the consolidated income statement as part of administrative expenses. When a trade receivable is uncollectible, it is written off against the allowance account for trade receivables. Subsequent recovery of amount previously written off is credited against the administrative expenses in our consolidated income statement.

Warranty Claims. We generally offer warranties ranging from six months to 18 months for our trucks and engines. We estimate the related provision for future warranty claims based on historical warranty claim information, as well as recent trends that might suggest that past cost information may differ from future claims. Factors that could impact the estimated claim information include the rate of defect and quality initiatives as well as parts and labor costs.

Contingent Liabilities in respect of Legal Claims. We have been involved in certain legal disputes in the ordinary course of business. Contingent liabilities arising from these disputes have been assessed by us with reference to legal advices we received. Provisions on the potential obligations have been made based on our best estimates and judgment.

Results of Operations

The table below summarizes our audited consolidated results for 2004, 2005, 2006 and the nine months ended September 30, 2006 and 2007.

	Year ended December 31,						Nine months ended September 30,			
	2004		2005		2006		2006		2007	
							(unaudited)			
	(Rmb in thousands, except percentages)									
Revenue	10,163,580	100.0%	9,114,437	100.0%	12,767,450	100.0%	9,092,213	100.0%	16,141,370	100.0%
Cost of sales	(8,694,750)	(85.5)	(7,983,012)	(87.6)	(10,529,568)	(82.5)	(7,504,091)	(82.5)	(13,184,227)	(81.7)
Gross profit	1,468,830	14.5	1,131,425	12.4	2,237,882	17.5	1,588,122	17.5	2,957,143	18.3
Distribution costs	(334,572)	(3.3)	(427,401)	(4.7)	(649,904)	(5.1)	(463,666)	(5.1)	(778,269)	(4.8)
Administrative expenses	(529,834)	(5.2)	(497,995)	(5.5)	(638,673)	(5.0)	(468,069)	(5.1)	(604,698)	(3.7)
Other gains — net	153,318	1.5	88,489	1.0	372,555	2.9	347,674	3.8	114,224	0.7
Operating profit	757,742	7.5	294,518	3.2	1,321,860	10.4	1,004,061	11.0	1,688,400	10.5
Finance income	39,580	0.4	96,179	1.1	124,233	1.0	105,445	1.2	65,376	0.4
Finance costs	(245,721)	(2.4)	(154,735)	(1.7)	(259,435)	(2.0)	(183,741)	(2.0)	(138,868)	(0.9)
Finance costs-net	(206,141)	(2.0)	(58,556)	(0.6)	(135,202)	(1.1)	(78,296)	(0.9)	(73,492)	(0.5)
Profit before income tax	551,601	5.4	235,962	2.6	1,186,658	9.3	925,765	10.2	1,614,908	10.0
Income tax expense	(189,950)	(1.9)	(112,357)	(1.2)	(406,775)	(3.2)	(312,056)	(3.4)	(540,980)	(3.4)
Profit for the year/period	361,651	3.6	123,605	1.4	779,883	6.1	613,709	6.7	1,073,928	6.7
Attributable to:										
Equity holder	301,323	3.0	77,869	0.9	638,465	5.0	523,470	5.7	831,568	5.2
Minority interests	60,328	0.6	45,736	0.5	141,418	1.1	90,239	1.0	242,360	1.5
	361,651	3.6	123,605	1.4	779,883	6.1	613,709	6.7	1,073,928	6.7
Dividends paid to equity holder of our company	—	—	—	—	(60,918)	0.5%	(60,918)	0.7%	—	—
Dividends paid to minority interests	—	—	—	—	(1,749)	—	(1,749)	—	(1,346)	—

Business Segments. Our operations are organized into four business segments according to the nature of products and services provided:

- Trucks — manufacture and sale of trucks primarily by Sinotruk Jinan Truck Company, Sinotruk Jinan Commercial Truck Company, Sinotruk Jinan Axle & Transmission Company and Sinotruk Shandong Import & Export Company;

- Engines — manufacture and sale of engines primarily by Sinotruk Jinan Power including its foundry and casting divisions, Sinotruk Hangzhou Engine, and Sinotruk Chongqing Fuel System;

- Finance — taking deposits from our subsidiaries, facilitating borrowings for affiliated companies, inter-bank lending, discounting notes of affiliated companies and providing entrusted loans and entrusted investments between affiliated companies; these services are primarily provided by Sinotruk Finance Company, which is also referred to as our finance company in this prospectus; and

- Others — design and research services provided by Sinotruk Factory Design Institute and Sinotruk Jinan Technical Center.

Each business segment consists of a group of assets and operations engaged in providing products and services that are subject to risks and returns different from those of other business segments. For more details on the compositions of our major business segments, please refer to the chart illustrating our management structure and segment information in the section entitled "History, Reorganization and Corporate Structure — Corporate Structure" in this prospectus.

The following table illustrates our revenues by business segment. Our external sales represent the sales of products or services to external parties, which include third-party customers and our related parties. Our inter-segment revenue represents the internal sales of products or services between our segments and is eliminated upon consolidation. Inter-segment sales are conducted at prices and on terms mutually agreed among those business segments.

	Year ended December 31,			Nine months ended September 30,	
	2004	2005	2006	2006	2007
				(unaudited)	
	(Rmb in thousands)				
Trucks					
External sales	9,109,108	8,213,714	11,982,650	8,608,044	15,174,066
Inter-segment revenue	33,996	10,549	68,366	52,554	28,353
Engines					
External sales	1,047,461	881,845	731,567	437,822	952,216
Inter-segment revenue	561,530	532,178	2,382,684	1,667,256	3,104,550
Finance					
External sales	3,842	15,951	50,265	41,901	11,488
Inter-segment revenue	3,150	116,391	94,098	77,700	71,080
Others					
External sales	3,169	2,927	2,968	4,446	3,600
Inter-segment revenue	7,207	27,248	46,631	34,253	45,321
Elimination	(605,883)	(686,366)	(2,591,779)	(1,831,763)	(3,249,304)
Total Revenue (after eliminations)	**10,163,580**	**9,114,437**	**12,767,450**	**9,092,213**	**16,141,370**

Geographical Segments. The following table illustrates our revenues by geographical segment on the basis of the geographic locations of our customers.

	Year ended December 31,			Nine months ended September 30,	
	2004	2005	2006	2006	2007
				(unaudited)	
	(Rmb in thousands)				
Revenue					
Mainland China	10,067,086	8,062,585	11,204,734	7,842,534	13,449,722
Overseas	96,494	1,051,852	1,562,716	1,249,679	2,691,648
	10,163,580	9,114,437	12,767,450	9,092,213	16,141,370

Revenue. Revenue represents net invoiced value of goods sold and service fees received net of sales incentives such as commissions and rebates, and excludes sales taxes. Our total revenue comprises revenues from our four business segments: trucks, engines, finance and others.

Sales of our truck products in recent years have experienced a shift to higher-end models with the launch of our Sitaier King series in 2002 and the official launch of our HOWO series in 2005. These higher-end products have higher average selling prices than those for our Sitaier and Huanghe series as further described in “Business — Our Principal Products”.

The following table sets forth our product mix by sales volume for the periods indicated:

	2004	2005	2006	Nine months ended September 30, 2007
HOWO trucks	—	20.8%	41.5%	63.1%
Sitaier King trucks	62.7%	52.3	37.5	19.1
Sitaier trucks	34.9	22.4	7.3	16.7
Huanghe trucks	2.4	4.5	13.7	1.1
Total	100%	100%	100%	100%

In addition, we have experienced a significant growth in our export sales during the Track Record Period. Export sales increased from Rmb 96.5 million in 2004 to Rmb 1,051.9 million in 2005, Rmb 1,562.7 million in 2006, and further increased to Rmb 2,691.6 million for the nine months ended September 30, 2007. Our increase in export sales reflects the initial success of our long-term strategy to increasingly globalize our operations. Over the Track Record Period, we were able to establish an overseas network as well as identify and introduce products, such as HOWO, in our target export markets. The average selling prices for export sales were generally higher than those for domestic sales.

The inter-segment revenue for our truck segment comprises the sales of raw materials, primarily steel and crude parts, by the truck segment to our engine segment. Such sales are made pursuant to our centralized purchase arrangement under which we purchase some of our key raw materials and parts through our truck segment to obtain better prices and payment terms as a result of our large purchase volume.

The inter-segment revenue for our engine segment primarily comprises the sales of engines and related parts to our truck segment.

The inter-segment revenue for our finance segment represents primarily the revenues from providing financial services to our other segments.

The inter-segment revenue for our other services comprises primarily the fees from providing design and research services to our other segments.

Cost of Sales. Cost of sales represents costs of goods sold which consist primarily of costs of raw materials, parts and components, labor costs, some research and development expenses, depreciation expenses and utilities attributable to manufacturing and other production costs directly incurred during the production process.

The research and development expenses attributable to cost of sales mainly include costs of raw materials and testing, design fees related to research and development, and costs related to our research projects on China III and China IV engines.

Distribution Costs. Distribution costs primarily comprise salaries and benefits for sales personnel, transportation and storage costs, advertising and marketing expenses, warranty expenses and other sales-related costs such as rebates to dealers, packaging fees and commissions related to export sales.

Administrative Expenses. Administrative expenses mainly comprise salaries and benefits for our management and administrative staff and research and development personnel, repair and maintenance costs and depreciation expenses of office buildings and equipment, amortization expenses of intangible assets and land use rights, bad debt expense and other administration-related expenses.

Other Gains/(Losses) — Net. Other gains/(losses) represent the net balance of our gains or losses from disposal of property, plant and equipment, sales to third parties of scraps and extra spare parts and components we purchased, gains or losses on waivers of debt, government grants, rental income, gains from settlement of post-employment benefits and medical insurance plans, and other miscellaneous gains and losses.

Finance Costs — Net. Net finance costs represent the net balance of our interest expenses related to our borrowings and discounting on our notes receivable, our interest income on bank deposits, and our net foreign exchange gains/(losses).

Income Tax Expense. Sinotruk (Hong Kong) International Investment Limited, one of our subsidiaries, is subject to Hong Kong profits tax at the rate of 17.5% on its estimated taxable profit.

According to the Income Tax Law for Foreign Investment Enterprises and Foreign Enterprises and other policies related to income tax relief, Jinan Fuqiang Power is subject to a corporate income tax rate of 24%. It is exempted from corporate income tax for two years, starting from its first profitable year, which is 2002, and is then entitled to a 50% reduction in corporate income tax, resulting in an income tax rate of 12%, for three years thereafter until 2007.

In addition to the above mentioned companies, four of our subsidiaries that were previously subject to the statutory income tax rate of 33% were granted preferential tax treatments by relevant local tax authorities in the second half of 2007. However, it is uncertain whether we can continue to enjoy these preferential treatments under the new tax law after January 1, 2008.

Our remaining subsidiaries are subject to the PRC enterprise income tax, which has been provided based on the statutory income tax rate of 33% of the taxable income as determined in accordance with the relevant PRC income tax rules and regulations. According to PRC government's approval, we are authorized to compute our taxable income on a consolidated basis for our wholly owned subsidiaries prior to December 31, 2006. However, under relevant tax regulations, a company shall not continue to calculate income tax on a consolidated basis since the year when the company becomes listed. Therefore, our PRC subsidiaries will be subject to enterprise income tax based on their own taxable income at the applicable statutory income tax rate. Please see notes 19(c) and 26 to the Accountants' Report for further information.

According to the PRC tax laws and regulations, not all salary costs are permitted to be deducted. Under Jinan city's tax regulations, the deductible salary in the city of Jinan was Rmb 800 per month per person for 2004, Rmb 960 per month per person for the period from January 1, 2005 to June 30, 2006 and Rmb 1,600 thereafter. However, the actual monthly salary is approximately Rmb 2,800 for our group. Accordingly, staff salary in excess of Rmb 800, Rmb 960 or Rmb 1,600, whichever is applicable during the relevant periods, is not deductible. According to the new PRC Enterprise Income Tax effective on January 1, 2008, all salary costs are deductible from taxable income.

See "Note 26 — Taxation" to the Accountants' Report in Appendix I to this prospectus for further details of the income tax regime.

Nine Months Ended September 30, 2007 Compared with Nine Months Ended September 30, 2006

Revenue. The following table sets forth both our external sales and inter-segment sales by each segment for the nine months ended September 30, 2006 and 2007.

	Nine months ended September 30,					
	2006 (unaudited)			2007		
	(Rmb in millions)					
	External sales	Inter-segment revenue	Segment total	External sales	Inter-segment revenue	Segment total
Segment						
Trucks	8,608.1	52.6	8,660.7	15,174.1	28.4	15,202.5
Engines	437.8	1,667.3	2,105.1	952.2	3,104.6	4,056.8
Finance	41.9	77.7	119.6	11.5	71.1	82.6
Others	4.4	34.3	38.7	3.6	45.3	48.9
Elimination	—	(1,831.9)	(1,831.9)	—	(3,249.4)	(3,249.4)
Total revenue (after elimination)	**9,092.2**	**—**	**9,092.2**	**16,141.4**	**—**	**16,141.4**

Our total consolidated revenue increased Rmb 7,049.2 million, or approximately 77.5%, to Rmb 16,141.4 million for the nine months ended September 30, 2007 from Rmb 9,092.2 million for the same period in 2006. The increase primarily reflected increased sales of trucks.

Truck segment. Our revenue from truck sales to external parties increased Rmb 6,566.0 million, or approximately 76.3%, to Rmb 15,174.1 million for the nine months ended September 30, 2007 from Rmb 8,608.1 million for the same period in 2006. The increase was primarily due to: (i) increased overall sales volume from 37,436 units to 63,274 units, and (ii) increased sales of our high-end products such as our HOWO series, which accounted for 63.1% of our total sales volume for the nine months ended September 30, 2007.

The inter-segment revenue for our truck segment decreased Rmb 24.2 million, or approximately 46.0%, to Rmb 28.4 million for the nine months ended September 30, 2007 from Rmb 52.6 million for the same period in 2006. The decrease was primarily due to the decreased sales of scrap materials by Sinotruk Axle & Transmission to our engine segment as our manufacturing processes improved and less waste was produced during the process.

Engine segment. Our revenue from engine sales to external parties increased Rmb 514.4 million, or approximately 117.5%, to Rmb 952.2 million for the nine months ended September 30, 2007 from Rmb 437.8 million for the same period in 2006. The increase was primarily due to the increased sales volume of our engines which was made possible by our increased engine manufacturing capacity at Sinotruk Jinan Power.

The inter-segment revenue for our engine segment increased Rmb 1,437.3 million, or approximately 86.2%, to Rmb 3,104.6 million for the nine months ended September 30, 2007 from Rmb 1,667.3 million for the same period in 2006. The increase was primarily due to our engine segment selling more engines and parts to the truck segment as our truck sales volume increased for the nine months ended September 30, 2007.

Finance segment. Our revenue from finance services to external parties decreased Rmb 30.4 million, or approximately 72.6%, to Rmb 11.5 million for the nine months ended September 30, 2007 from Rmb 41.9 million for the same period in 2006. The decrease was due to our receipt of less interest income from bills rediscounting as we reduced the amount of our rediscounting business with financial institutions.

The inter-segment revenue for our finance segment slightly decreased Rmb 6.6 million, or approximately 8.5%, to Rmb 71.1 million for the nine months ended September 30, 2007 from Rmb 77.7 million for the same period in 2006.

Others. Our revenue from other services to external parties decreased slightly to approximately Rmb 3.6 million for the nine months ended September 30, 2007 from Rmb 4.4 million for the same period in 2006.

The inter-segment revenue from our other services increased Rmb 11.0 million, or approximately 32.1%, to Rmb 45.3 million for the nine months ended September 30, 2007 from Rmb 34.3 million for the same period in 2006. The increase was primarily due to the increased income of Sinotruk Technical Center from design and research fees for new truck models.

Cost of Sales and Gross Profit Margin. Our cost of sales increased by Rmb 5,680.1 million, or 75.7%, to Rmb 13,184.2 million for the nine months ended September 30, 2007 from Rmb 7,504.1 million for the same period in 2006. The overall increase in cost of sales was primarily due to (i) an increase in the purchases of raw materials and parts and components resulting from the increased sales volume of our trucks and (ii) an increase in manufacturing costs including direct labor, depreciation, utilities and other direct production expenses as a result of our increased truck and engine production.

The following table sets forth our gross profit margin for each major segment for the nine months ended September 30, 2006 and 2007.

	For the nine months ended September 30,	
	2006	2007
	(unaudited)	
Gross profit margin (including inter-segment transactions):		
Trucks	14.5%	15.0%
Engines	17.5	19.3
Finance	33.5%	47.6%

The gross profit margin for our truck segment increased to 15.0% for the nine months ended September 30, 2007 from 14.5% for the same period in 2006. The increase was primarily due to the following factors: (i) our export sales accounted for a larger portion of our total sales for the nine months ended September 30, 2007, and export sales generally have a higher profit margin than our domestic sales of trucks; (ii) the increased sales of our HOWO series, which has a higher gross profit margin; and (iii) lower overhead cost per truck through economies of scale as our sales volume increased.

The gross profit margin for our engine segment increased to 19.3% for the nine months ended September 30, 2007 from 17.5% for the same period in 2006. The increase was primarily due to the following factors: (i) the increased production volume of Sinotruk Jinan Power, resulting in lower unit production cost; (ii) the increased proportion of self-produced parts used in our engine production, which had a lower cost than procured parts; and (iii) the improved manufacturing processes at Sinotruk Jinan Power after its trial production period in early 2006, which reduced the defect rate and improved efficiency in our production.

The gross profit margin for our finance segment increased to 47.6% for the nine months ended September 30, 2007 from 33.5% for the same period in 2006. The increase was primarily due to the fact that profit margin on loans is generally higher than on rediscounting bank/commercial notes, and our finance company focused on loan operations for the nine months ended September 30, 2007.

The gross profit margin analysis on our "Others" segment is not included here as the amounts of revenue and cost of sales from this segment historically have been small and immaterial to our operations as a whole, and we do not expect this segment to become a material source of revenue or cost in the future.

Distribution Costs. Our distribution costs were Rmb 778.3 million for the nine months ended September 30, 2007, representing an increase of Rmb 314.6 million, or 67.8%, from Rmb 463.7 million for the same period in 2006. The increase was primarily due to the following factors: (i) an increase in transportation and storage costs as a result of increased sales volume and export volume, increased gas prices and particularly our increased export sales to Russia, which involved long distance of transportation; (ii) an increase in warranty expenses due to our increased sales; and (iii) an increase in other sales-related expenses including rebates to dealers and packaging fees.

The following table illustrates the breakdown of major components of distribution costs for the nine months ended September 30, 2006 and 2007.

	For the nine months ended September 30,			
	2006		2007	
	(unaudited)			
	(Rmb in thousands)			
Sales employee benefits	29,426	6.3%	54,304	7.0%
Transportation expenses	157,982	34.1	247,827	31.8
Advertising costs	66,489	14.3	88,595	11.4
Warranty expenses	97,248	21.0	165,381	21.3
Others	112,521	24.3	222,162	28.5
Total distribution costs	**463,666**	**100.0%**	**778,269**	**100.0%**

Administrative Expenses. Administrative expenses were Rmb 604.7 million for the nine months ended September 30, 2007, representing an increase of Rmb 136.6 million, or 29.2%, from Rmb 468.1 million for the same period in 2006. The increase was primarily due to our increased employee salary and benefit expenses for our administrative and managerial personnel and other expenses such as business travel and general office expenses, as a result of our increased sales and production. We made a provision of approximately Rmb 4.9 million for impairment of receivables for the nine months ended September 30, 2007 based on our judgment and estimates of potential bad debt for our receivable balance as of September 30, 2007 on the basis of our aging analysis and past experience.

The following table illustrates the breakdown of major components of administrative costs for the nine months ended September 30, 2006 and 2007.

	Nine months ended September 30,			
	2006		2007	
	(unaudited)			
	(Rmb in thousands)			
Administrative employee benefits expenses	226,060	48.3%	285,934	47.3%
Depreciation expenses	32,170	6.9	32,742	5.4
Provision for impairment of receivables	(7,739)	(1.7)	4,936	0.8
Others	217,578	46.5	281,086	46.5
Total administrative costs	**468,069**	**100.0%**	**604,698**	**100.0%**

Other gains — net. Our net other gains were Rmb 114.2 million for the nine months ended September 30, 2007, a decrease of Rmb 233.5 million, or 67.2%, from Rmb 347.7 million for the same period in 2006. The decrease was primarily due to a one-time actuarial gain of Rmb 301.2 million on the settlement of medical insurance plans in earlier 2006, and the fact that we did not have similar gains for the nine months ended September 30, 2007. The decrease was partially offset by the increase of foreign exchange gains in the relevant period of 2007, which represented the appreciation of our EURO-denominated accounts receivables.

The following table illustrates the breakdown of major components of our other gains for the nine months ended September 30, 2006 and 2007.

	Nine months ended September 30,			
	2006		2007	
	(unaudited)			
	(Rmb in thousands)			
Sales of by-products	72,632	20.9%	68,077	59.6%
(Losses)/gains on disposal of property, plant and equipment	(29,245)	(8.4)	(2,694)	(2.4)
Gains/(losses) on waiver of debt	6	0.0	234	0.2
Government grants	1,120	0.3	4,869	4.3
Rental income	6,273	1.8	5,713	5.0
Gains from settlement of medical insurance plans	301,220	86.6	—	—
Foreign exchange gains/(losses)	(1,161)	(0.3)	38,674	33.9
Others	(3,171)	(0.9)	(649)	(0.6)
Total other gains — net	**347,674**	**100.0%**	**114,224**	**100.0%**

Operating Profit. Our operating profit was Rmb 1,688.4 million for the nine months ended September 30, 2007, an increase of Rmb 684.3 million, or 68.2%, from Rmb 1,004.1 million for the same period in 2006 as a result of the cumulative effects of the foregoing factors.

Finance costs — net. Our net finance costs were Rmb 73.5 million for the nine months ended September 30, 2007, a decrease of Rmb 4.8 million, or 6.1%, from Rmb 78.3 million for the same period in 2006. The decrease was primarily due to our decreased total loan amount resulting from (i) our better operational results and increased working capital, which allowed us to repay our bank loans as they became due and reduce our bank borrowings; and (ii) the transfer of certain assets and liabilities to our Parent Company during our Reorganization.

The following table illustrates the breakdown of major components of our net finance costs for the nine months ended September 30, 2006 and 2007.

	For the nine months ended September 30,	
	2006	2007
	(unaudited)	
	(Rmb in thousands)	
Interest expense:		
— Bank borrowings	(95,662)	(77,418)
— Discount of notes receivable	(93,055)	(61,424)
Finance income — Net foreign exchange gains/(losses) on financing activities	4,976	(26)
Finance costs	(183,741)	(138,868)
Finance income — Interest income on bank deposits	105,445	65,376
Net finance costs	**(78,296)**	**(73,492)**

Income Tax Expense. Income tax expense was Rmb 541.0 million for the nine months ended September 30, 2007, an increase of Rmb 228.9 million, or 73.3%, from Rmb 312.1 million for the same period in 2006. The increase in income tax expense was primarily due to our increased taxable profit for the nine months ended September 30, 2007. Our effective income tax rate was approximately 33.5% for the nine months ended September 30, 2007, which decreased slightly from approximately 33.7% for the same period in 2006.

Profit for the Year. As a result of the above factors, our net profit for the nine months ended September 30, 2007 increased by Rmb 460.2 million, or 75.0%, to Rmb 1,073.9 million from Rmb 613.7 million for the same period in 2006. Our net profit margin was 6.7% for the nine months ended September 30, 2007, which was unchanged from that for the same period in 2006. The net profit margin for the nine months ended September 30, 2006 reached 6.7% primarily because of the one-time gain on the settlement of employee medical insurance plans in early 2006. The net profit attributable to our equity holder was Rmb 523.5 million and Rmb 831.6 million for the nine months ended September 30, 2006 and 2007, respectively.

Minority Interests. Minority interests increased by Rmb 152.2 million, or 168.7%, to Rmb 242.4 million for the nine months ended September 30, 2007 from Rmb 90.2 million for the same period in 2006. The increase in minority interests was primarily due to the increased net profit from Sinotruk Jinan Truck Company resulting from (i) the increased sales volume of trucks, and (ii) the injection of 51% equity interest of Jinan Axle & Transmission Company into Sinotruk Jinan Truck Company on June 30, 2006.

2006 Compared with 2005

As the arrangements pursuant to the Reorganization became effective on June 30, 2006 and for reasons discussed above in "Basis of Presentation", our financial results for 2006 may not be directly comparable to the financial results for 2005.

Revenue. The following table sets forth both our external sales and inter-segment sales by each segment in 2005 and 2006.

	Year ended December 31,					
	2005			2006		
	(Rmb in millions)					
	External sales	Inter-segment revenue	Segment total	External sales	Inter-segment revenue	Segment total
Segment						
Trucks	8,213.7	10.5	8,224.3	11,982.7	68.4	12,051.0
Engines	881.8	532.2	1,414.0	731.6	2,382.7	3,114.3
Finance	16.0	116.4	132.3	50.3	94.1	144.4
Others	2.9	27.2	30.2	3.0	46.6	49.6
Elimination	—	(686.4)	(686.4)	—	(2,591.8)	(2,591.8)
Total revenue (after elimination)	**9,114.4**	**—**	**9,114.4**	**12,767.5**	**—**	**12,767.5**

Our total consolidated revenue increased Rmb 3,653.1 million, or approximately 40.1%, to Rmb 12,767.5 million in 2006 from Rmb 9,114.4 million in 2005. The increase primarily reflected increased sales of trucks.

Truck segment. Our revenue from truck sales to external parties increased Rmb 3,769.0 million, or approximately 45.9%, to Rmb 11,982.7 million in 2006 from Rmb 8,213.7 million in 2005. The increase was primarily due to: (i) increased sales volume from 35,378 units to 51,573 units, among which our export sales increased from 3,817 units to 5,869 units as we were recovering from an industry-wide slow down and increased our sales to overseas markets; and (ii) increased sales of our high-end products such as our HOWO series, which was officially launched in 2005 and gained increasing market acceptance in 2006. Volume increase accounted for approximately 99.8% of our truck revenue increase.

The inter-segment revenue for our truck segment increased Rmb 57.9 million, or approximately 551.4%, to Rmb 68.4 million in 2006 from Rmb 10.5 million in 2005. The increase was primarily due to the increased sales of steel and other raw materials to our engine segment resulting from the higher engine production volume in 2006.

Engine segment. Our revenue from engine sales to external parties decreased Rmb 150.2 million, or approximately 17.0%, to Rmb 731.6 million in 2006 from Rmb 881.8 million for the same period in 2005. The decrease was primarily due to the fact that Hangzhou Engine Factory sold most of its engines to Weichai Power in 2005 when the daily operations of Hangzhou Engine Factory were under the management of Weichai Power pursuant to a trust agreement dated September 20, 2004 between our Parent Company and Weichai Factory and the fact that we ceased such practice and sold engines directly to our truck segment in 2006 after the trust agreement was terminated, which resulted in less external revenue.

Prior to the termination of the trust arrangement in January 2006, we exercised substantive control over Hangzhou Engine Factory. During this period, Hangzhou Engine Factory's operations and sales were primarily based on sales orders from Weichai Power. Such sales were recorded as external sales for segment accounting purposes. Since the termination of the trust arrangement, Hangzhou Engine Factory has primarily sold its products to us. Such sales were recorded as inter-segment sales, which were also buttressed by a corresponding increase in our sales of trucks in 2006. Accordingly, inter-segment sales have increased significantly since the termination of the trust arrangement.

The inter-segment revenue for our engine segment increased Rmb 1,850.5 million, or approximately 347.7%, to Rmb 2,382.7 million in 2006 from Rmb 532.2 million in 2005. The increase was primarily due to the following factors: (i) Hangzhou Engine Factory sold its products directly to our truck segment instead of Weichai Power since the termination of the trust agreement in 2006, as described above; and (ii) our engine segment sold more engines and parts to the truck segment as our truck sales volume increased in 2006.

Finance segment. Our revenue from finance services to external parties increased Rmb 34.3 million, or approximately 214.4%, to Rmb 50.3 million in 2006 from Rmb 16.0 million in 2005. The increase was due to the increased interest income primarily from loans to CNHTC Real Estate Company, which is our related party and regarded as an external party for the purpose of our segment analysis. All our loans to CNHTC Real Estate Company and other related parties were repaid by the end of 2006. For further details on loans to related parties, please see note 35 to the Accountants' Report in this prospectus.

The inter-segment revenue for our finance segment decreased Rmb 22.3 million, or approximately 19.2%, to Rmb 94.1 million in 2006 from Rmb 116.4 million in 2005. The decrease was primarily due to the fact that fewer bank acceptance notes were rediscounted through our finance company as the prime interest rate increased since 2005. In the environment of increasing interest rate, our profit from rediscounting our bank acceptance notes decreased. As a result, our bank acceptance notes were presented directly to commercial banks for discounting instead.

Others. Our revenue from other services to external parties increased slightly to approximately Rmb 3.0 million in 2006 from Rmb 2.9 million in 2005.

The inter-segment revenue from our other services increased Rmb 19.4 million, or approximately 71.3%, to Rmb 46.6 million in 2006 from Rmb 27.2 million in 2005. The increase was primarily due to the design and research services provided for the development of the HOWO 9 subseries and new models of semi-tractor trucks.

Cost of Sales and Gross Profit Margin. Our cost of sales increased by Rmb 2,546.6 million, or 31.9%, to Rmb 10,529.6 million in 2006 from Rmb 7,983.0 million in 2005. The overall increase in cost of sales was primarily due to (i) an increase in the purchases of raw materials and parts and components resulting from the increased sales volume of our trucks, (ii) a shift in our product mix to more high-end trucks and the higher manufacturing cost resulting from the upgraded configurations for such high-end models, including the HOWO series; and (iii) an increase in salary and benefit expenses for manufacturing personnel and manufacturing overhead as a result of increased truck and engine production.

The following table sets forth our gross profit margin for each major segment in 2005 and 2006.

	Year ended December 31,	
	2005	2006
Gross profit margin (including inter-segment transactions):		
Trucks	13.5%	15.0%
Engines	7.4	16.7
Finance	26.3%	33.8%

The gross profit margin for our truck segment increased to 15.0% in 2006 from 13.5% in 2005. The increase was primarily due to the following factors: (i) our increased export sales, which generally have a higher gross profit margin than our domestic sales of trucks; (ii) the increased sales of our HOWO series, which has a higher gross profit margin; (iii) lower overhead cost per truck through economies of scale as our sales volume increased; and (iv) lower unit cost of raw materials and parts as we consolidated most of the purchases of raw materials and parts for our truck and engine segments and purchased large quantities of materials and parts at more favorable prices through our centralized purchasing arrangements.

The gross profit margin for our engine segment increased to 16.7% in 2006 from 7.4% in 2005. The increase was primarily due to the following factors: (i) the increased production volume driven by the high market demand, resulting in lower unit production cost; and (ii) a change in our engine product mix as we increased the proportion of our higher-powered engines, which had a higher unit gross profit margin.

The gross profit margin for our finance segment increased to 33.8% in 2006 from 26.3% in 2005. The increase was primarily due to the increased interest income resulting from our larger amount of loans made to our related parties in proportion to the interest income from rediscounting of bank acceptance notes in 2006, and the fact that loans generally have a higher profit margin than that of rediscounting bank acceptance notes.

Distribution Costs. Our distribution costs were Rmb 649.9 million in 2006, representing an increase of Rmb 222.5 million, or 52.1%, from Rmb 427.4 million in 2005. The increase was primarily due to the following factors: (i) an increase in warranty expenses due to our increased sales; (ii) an increase in advertising expenses to promote our newly launched models including the HOWO 8 subseries and Haojun subseries; (iii) an increase in transportation and storage costs as a result of increased sales volume and export volume, and increased gas prices; and (iv) an increase in other sales-related expenses including rebates to dealers and packaging fees.

The following table illustrates the breakdown of major components of distribution costs in 2005 and 2006.

	Year ended December 31,			
	2005		2006	
	(Rmb in thousands)			
Sales employee benefits	37,420	8.8%	39,698	6.1%
Transportation expenses	211,658	49.5	235,615	36.3
Advertising costs	53,104	12.4	90,936	14.0
Warranty expenses	67,740	15.8	150,524	23.2
Others	57,479	13.5	133,131	20.4
Total distribution costs	**427,401**	**100.0%**	**649,904**	**100.0%**

Administrative Expenses. Administrative expenses were Rmb 638.7 million in 2006, representing an increase of Rmb 140.7 million, or 28.3%, from Rmb 498.0 million in 2005. The increase was primarily due to our increased employee salary and benefit expenses for our administrative and managerial personnel and other expenses such as business travel and general office expenses, as a result of our increased sales and production. In the three months ended December 31, 2006, we had bad debt expenses of approximately Rmb 8.6 million charged to our income statement based on our year-end review of certain aged receivables of Sinotruk Jinan Truck Company and Sinotruk Commercial Truck Company.

The following table illustrates the breakdown of major components of administrative costs in 2005 and 2006.

	Year ended December 31,			
	2005		2006	
	(Rmb in thousands)			
Administrative employee benefits expenses	255,211	51.2%	306,477	48.0%
Depreciation expenses	36,109	7.3	38,796	6.1
Provision for impairment of receivables	(936)	(0.2)	896	0.1
Others	207,611	41.7	292,504	45.8
Total administrative costs	**497,995**	**100.0%**	**638,673**	**100.0%**

Other gains — net. Our net other gains were Rmb 372.6 million in 2006, an increase of Rmb 284.1 million, or 321%, from Rmb 88.5 million in 2005. The increase was primarily due to the nonrecurring gain of 301.2 million from the settlement of medical insurance plans, the increased sales of scraps and spare parts and components and our gain on waiver of certain accounts payable by our suppliers in 2006. These increase and gains were partially offset by our losses on disposal of property, plant and equipment.

On March 1, 2006, with the approval of governmental authorities, some of our subsidiaries operating in Jinan joined the social security medical plan, which is a defined contribution plan administered by relevant labor and social welfare authorities of Jinan. Our required contributions to the social medical security plan are calculated based on 8% of the total salary of our employees, subject to a certain ceiling. Under this plan, our obligations for post-retirement healthcare benefits are limited to the contributions made and we are relieved from our obligations under the previous post-retirement healthcare plan, which was a defined benefit plan and constituted higher amount of liability for us. Thus, our discontinuing the previous healthcare plan and joining the social medical security plan resulted in one-time gain on settlement in 2006. Such gains were recorded as other gains in our consolidated income statement and were non-recurring in nature. Our recognition of Rmb 301.2 million in gains from settlement of medical insurance plans did not require consent or approval from the PRC governmental authorities. The basis upon which we quantified and recognized such amounts as other gains in 2006 was an independent actuarial report we commissioned. See also note 22(c) to the Accountants' Report included in this prospectus.

The following table illustrates the breakdown of major components of our other gains in 2005 and 2006.

	Year ended December 31,			
	2005		2006	
	(Rmb in thousands)			
Sales of by-products	89,166	100.8%	111,001	29.8%
Losses on disposal of property, plant and equipment	(15,525)	(17.5)	(52,151)	(14.0)
Gains on waiver of debt	1,073	1.2	382	0.1
Government grants	2,877	3.3	5,970	1.6
Rental income	10,938	12.3	6,414	1.7
Gains from settlement of post-employment benefits	3,060	3.4	—	—
Gains from settlement of medical insurance plans	—	—	301,220	80.9
Others	(3,100)	(3.5)	(281)	(0.1)
Total other gains — net	**88,489**	**100.0%**	**372,555**	**100.0%**

Operating Profit. Our operating profit increased by Rmb 1,027.4 million, or 348.9%, to Rmb 1,321.9 million in 2006 from Rmb 294.5 million in 2005. The increase was mainly due to our increased sales volume, in particular our increased sales of high-end trucks, the one-time actuarial gain from the settlement of medical insurance plans, and the fact that a higher portion of gross profit from our engines segment was retained internally since we resumed the management of the daily operations of Hangzhou Engine Factory in 2006.

Finance costs — net. Our net finance costs were Rmb 135.2 million in 2006, an increase of Rmb 76.6 million, or 130.7%, from Rmb 58.6 million in 2005. The increase was primarily due to the following factors: (i) our increased interest expense from discounting a larger amount of notes receivable in 2006, which was partially offset by an increase in our interest income from our increased amount of bank deposits; and (ii) our decreased net foreign exchange gains in 2006 as we had a lower outstanding balance of U.S. dollar-denominated loans in 2006 than in 2005, which resulted in less foreign exchange gains from the appreciation of Renminbi since July 2005.

The following table illustrates the breakdown of major components of our net finance costs in 2005 and 2006.

	Year ended December 31,	
	2005	2006
	(Rmb in thousands)	
Interest expense:		
— Bank borrowings	(132,514)	(118,559)
— Discount of notes receivable	(59,593)	(143,881)
Finance income — Net foreign exchange (losses)/gains on financing activities	37,372	3,005
Finance costs	(154,735)	(259,435)
Finance income — Interest income on bank deposits	96,179	124,233
Net finance costs	**(58,556)**	**(135,202)**

Income Tax Expense. Income tax expense was Rmb 406.8 million in 2006, an increase of Rmb 294.4 million, or 261.9%, from Rmb 112.4 million in 2005. Our effective income tax rate was approximately 34.3% in 2006, which decreased from approximately 47.6% in 2005. The higher effective income tax rate in 2005 was primarily due to our lower taxable profit in 2005 than 2006, while the amount of non tax-deductible items remained stable in 2005. The increase in income tax expense was primarily due to our increased taxable profit in 2006. In addition, we were not able to enjoy tax deductions for individual salaries in excess of Rmb 960 under PRC tax law, while our average salary rose during 2006.

Profit for the Year. As a result of the above factors, our net profit in 2006 increased by Rmb 656.3 million, or 531.0%, to Rmb 779.9 million from Rmb 123.6 million in 2005. Our net profit margin increased to 6.1% in 2006 from 1.4% in 2005. The net profit attributable to our equity holder was Rmb 77.9 million and Rmb 638.5 million in 2005 and 2006, respectively.

Minority Interests. Minority interests increased by Rmb 95.7 million, or 209.4%, to Rmb 141.4 million in 2006 from Rmb 45.7 million in 2005. The increase in minority interests was primarily due to (i) the increased net profit from Sinotruk Jinan Truck Company, and (ii) the injection of 51% equity interests of Jinan Axle & Transmission Company into Sinotruk Jinan Truck Company on June 30, 2006.

2005 Compared with 2004

Revenue. The following table sets forth both our external sales and inter-segment sales by each segment for 2004 and 2005.

	Year ended December 31,					
	2004			2005		
	(Rmb in millions)					
	External sales	Inter-segment revenue	Segment total	External sales	Inter-segment revenue	Segment total
Segment						
Trucks	9,109.1	34.0	9,143.1	8,213.7	10.5	8,224.2
Engines	1,047.5	561.5	1,609.0	881.8	532.2	1,414.0
Finance	3.8	3.2	7.0	16.0	116.4	132.4
Others	3.2	7.2	10.4	2.9	27.3	30.2
Elimination	—	(605.9)	(605.9)	—	(686.4)	(686.4)
Total Revenue (after eliminations)	**10,163.6**	**—**	**10,163.6**	**9,114.4**	**—**	**9,114.4**

Total revenue from our operations in 2005 was Rmb 9,114.4 million, which represented a decrease of Rmb 1,049.2 million, or approximately 10.3%, from Rmb 10,163.6 million in 2004. The decrease primarily reflected a decrease in our truck sales volume due to an industry-wide slow down as a result of macroeconomic policy adjustments in China.

Truck segment. Our revenue from truck sales to external parties decreased Rmb 895.4 million, or approximately 9.8%, to Rmb 8,213.7 million in 2005 from Rmb 9,109.1 million in 2004. The decrease was primarily due to the decreased sales volume from 43,216 units in 2004 to 35,378 units in 2005, as the entire heavy truck industry was adversely impacted by uncertainties resulting from a series of PRC government policy changes including new maximum GVW regulations, which affected potential buyers' purchasing decisions. According to the China Automotive Industry Association, the industry-wide heavy truck sales volume declined 33.2% in 2005. Despite the overall downward trend in our industry, we, together with our Parent Company, increased our market share from 12.7% in 2004 to 18.6% in 2005, according to the China Automotive Industry Association. We also increased our truck export sales from 216 units in 2004 to 3,817 units, due to our increased sales and marketing efforts in overseas markets, which partially offset the impact of decrease in our domestic truck sales.

The inter-segment revenue for our truck segment decreased Rmb 23.5 million, or approximately 69.1%, to Rmb 10.5 million in 2005 from Rmb 34.0 million in 2004. The decrease was primarily due to the decreased sales of raw materials such as steel to our engine segment as a result of the lower engine production volume in 2005.

Engine segment. Our revenue from engine sales to external parties decreased Rmb 165.7 million, or approximately 15.8%, to Rmb 881.8 million in 2005 from Rmb 1,047.5 million in 2004. The decrease was primarily due to the shift in the product mix of Hangzhou Engine Factory from high-powered engines to low-powered engines when Hangzhou Engine Factory's daily operations were managed by Weichai Power for the most part of 2005, and the decline in our truck sales volume in 2005.

The inter-segment revenue for our engine segment decreased Rmb 29.3 million, or approximately 5.2%, to Rmb 532.2 million in 2005 from Rmb 561.5 million in 2004. The decrease was primarily due to our decreased truck sales volume, and the fact that a majority of engines produced at Hangzhou Engine Factory were sold to Weichai Power when it managed Hangzhou Engine Factory's daily operations pursuant to the trust agreement dated September 20, 2004.

Finance segment. As our finance company began its operation at the end of October 2004, its revenue in 2004 included revenues for two months only, which was not comparable to the full year revenue in 2005. The primary source of inter-segment revenue for our finance company in 2005 was from rediscounting bank acceptance notes for our subsidiaries.

Others. Our revenue from other services to external parties slightly decreased by Rmb 0.3 million, or approximately 9.4%, to Rmb 2.9 million in 2005 from Rmb 3.2 million in 2004.

The inter-segment revenue for our other services increased by Rmb 20.1 million, or approximately 279.2%, to Rmb 27.3 million in 2005 from Rmb 7.2 million in 2004. The increase was primarily due to more design and research service fees for internal projects being recognized in 2005 as we completed more internal projects, such as the construction of certain Zhangqiu facilities and development of HOWO series.

Cost of Sales and Gross profit margin. Our cost of sales decreased by Rmb 711.8 million, or 8.2%, to Rmb 7,983.0 million in 2005 from Rmb 8,694.8 million in 2004. The overall decrease in cost of sales was primarily due to the reduced truck sales and production.

The following table sets forth our gross profit margin for each of our major business segments in 2004 and 2005.

	Year ended December 31,	
	2004	2005
Gross profit margin (including inter-segment transactions):		
Trucks	11.6%	13.5%
Engines	24.4	7.4
Finance[1]	—	—

(1) As our finance segment only began its operations at the end of October 2004, its gross profit margin in 2004, although can be calculated based on two months of operating data, was not meaningful for comparison with its gross profit margin in 2005, which was based on a full year's performance.

The gross profit margin for our truck segment increased to 13.5% in 2005 from 11.6% in 2004 despite our decreased sales volume in 2005. The increase was primarily due to the higher gross profit margin on our increased export sales in 2005 and the higher unit gross profit margin on our HOWO series, which was officially launched in 2005.

The gross profit margin for our engine segment decreased to 7.4% in 2005 from 24.4% in 2004. The decrease was primarily due to the lower gross profit margin on low-power engines, which accounted for the majority of the products manufactured by Hangzhou Engine Factory when its daily operations were managed by Weichai Power for the most part of 2005.

Distribution Costs. Our distribution costs were Rmb 427.4 million in 2005, an increase of Rmb 92.8 million, or 27.7%, from Rmb 334.6 million in 2004. The increase was primarily due to the increased transportation costs as a result of our increased export sales from 216 units in 2004 to 3,817 units in 2005, most of which were sold to the Middle East in 2005 as opposed to Southeast Asia in 2004, and the increased advertising expenses relating to the launch of HOWO Series in 2005. These increases were partially offset by the decrease in warranty expenses as a result of the decline in the sales volumes of trucks in 2005.

The following table illustrates the breakdown of major components of distribution costs in 2004 and 2005.

	Year ended December 31,			
	2004		2005	
	(Rmb in thousands)			
Sales employee benefits	44,277	13.2%	37,420	8.8%
Transportation expenses	101,044	30.2	211,658	49.5
Advertising costs	40,101	12.0	53,104	12.4
Warranty expenses	98,940	29.6	67,740	15.8
Others	50,210	15.0	57,479	13.5
Total distribution costs	**334,572**	**100.0%**	**427,401**	**100.0%**

Administrative Expenses. Administrative expenses were Rmb 498.0 million in 2005, representing a decrease of Rmb 31.8 million, or 6%, from Rmb 529.8 million in 2004. The decrease was primarily due to the fact that no additional provision for impairment of receivables was provided in 2005 as a result of our strengthened management of receivables, and a decrease in administrative and managerial employee salaries and benefits resulting from the decrease in sales and production of trucks as their compensation is determined to a certain extent by sales revenue. The decrease was partially offset by our increased depreciation expenses primarily due to the completion of more construction projects in 2005.

The following table illustrates the breakdown of major components of administrative expenses in 2004 and 2005.

	Year ended December 31,			
	2004		2005	
	(Rmb in thousands)			
Administrative employee benefits expenses	264,303	49.9%	255,211	51.2%
Depreciation expenses	23,831	4.5	36,109	7.3
Provision for impairment of receivables	29,359	5.5	(936)	(0.2)
Others	212,341	40.1	207,611	41.7
Total administrative costs	**529,834**	**100.0%**	**497,995**	**100.0%**

Other gains — net. Our net other gains were Rmb 88.5 million in 2005, a decrease of Rmb 64.8 million, or 42.3%, from Rmb 153.3 million in 2004. The decrease was primarily due to a larger amount of government grants received in 2004 compared to 2005, and a larger amount of gains on waiver of debt in 2004 compared to 2005. The larger amount of government grants in 2004 related to the PRC central government's support for the restructuring of the predecessor of our Parent Company in 2000. The support of the central government primarily comprised Rmb 1.2 billion in grant and instructions for certain banks to waive certain debts of ours. The Rmb 1.2 billion was disbursed in installments during the period from 2001 to 2004, and we received the last installment of Rmb 67.2 million in 2004. The other government grant we received in 2004 was a refund of value-added tax of Rmb 1.9 million for our foundry division, which is of recurring nature as it is a regular subsidy for the foundry industry. These grants were recognized by us rather than our Parent Company because such amounts were related to the Listing Business. The government grants we received in 2005 primarily comprised a refund of value-added tax of Rmb 1.7 million for our foundry division, and a non-recurring refund of value-added tax of Rmb 1.2 million to us. The waiver of debt in 2004 was also related to the restructuring of the predecessor of our Parent Company in 2000. The waiver of certain debts instructed by the central government was finally realized through our lump-sum settlements with the bank in 2004 when it was restructuring its assets in connection with its contemplated listing in China and overseas. The discounted lump-sum payments of these debts reflected part of the principal and interest amounts waived by the bank. Such waivers are unconditional in nature. We did not have similar gains on waiver of debt by any bank in 2005.

The following table illustrates the breakdown of major components of our other gains in 2004 and 2005.

	Year ended December 31,			
	2004		2005	
	(Rmb in thousands)			
Sales of by-products	54,687	35.7%	89,166	100.8%
Losses on disposal of property, plant and equipment	(15,398)	(10.0)	(15,525)	(17.5)
Gains on waiver of debt	33,994	22.2	1,073	1.2
Government grants	69,662	45.4	2,877	3.2
Rental income	15,219	9.9	10,938	12.4
Gains from settlement of post-employment benefits	—	—	3,060	3.5
Gains from settlement of medical insurance plan	—	—	—	—
Others	(4,846)	(3.2)	(3,100)	(3.6)
Total other gains — net	**153,318**	**100.0%**	**88,489**	**100.0%**

Operating Profit. Our operating profit decreased by Rmb 463.2 million, or 61.1%, to Rmb 294.5 million in 2005 from Rmb 757.7 million in 2004. The decrease was mainly due to our decreased sales volume and increased distribution costs.

Finance Costs — Net. Our net finance costs in 2005 were Rmb 58.6 million, which represented a decrease of 71.6% from our finance costs of Rmb 206.1 million in 2004. The decrease in our net finance costs was primarily due to our decreased interest expense from lower discounting rate on notes receivable, the increased interest income on our increased amount of bank deposits, and the net foreign exchange gains arising from our outstanding balance of U.S. dollar-denominated loans and the appreciation of Renminbi since July 2005. The decrease in our finance costs was partially offset by our increased interest expense on additional bank borrowings in 2005.

The following table illustrates the breakdown of major components of our net finance costs in 2004 and 2005.

	Year ended December 31,	
	2004	2005
	(Rmb in thousands)	
Interest expense:		
— Bank borrowings	(115,921)	(132,514)
— Discount of notes receivable	(108,822)	(59,593)
Finance income — Net foreign exchange (losses)/gains on financing activities	(20,978)	37,372
Finance costs	(245,721)	(154,735)
Finance income — Interest income on bank deposits	39,580	96,179
Net finance costs	**(206,141)**	**(58,556)**

Income Tax Expense. Our income tax expense was Rmb 190.0 million and Rmb 112.4 million in 2004 and 2005, respectively. The decrease was primarily due to our decreased taxable profit. Our effective income tax rate was approximately 47.6% in 2005, which increased from approximately 34.4% in 2004. The increase in our effective income tax rate was primarily due to our increased amount of non tax-deductible items in proportion to our lower basis of taxable profit in 2005. In particular, we were not able to enjoy tax deductions for individual salaries in excess of Rmb 960, while our average salary rose during 2005.

Profit for the Year. As a result of the above factors, our profit for the year in 2005 decreased by Rmb 238.1 million, or 65.8%, to Rmb 123.6 million from Rmb 361.7 million for the same period in 2004. Our net profit margin decreased to 1.4% in 2005 from 3.6% in 2004. The profit for the year attributable to our equity holder was Rmb 301.3 million and Rmb 77.9 million in 2004 and 2005, respectively.

Minority Interests. Minority interests decreased by Rmb 14.6 million, or 24.2%, to Rmb 45.7 million in 2005 from Rmb 60.3 million in 2004. The decrease in minority interests was primarily due to the decreased net profit from Sinotruk Jinan Truck Company.

Liquidity and Capital Resources

We have funded our operations primarily through internally generated cash flows, debt offerings and bank borrowings. As a result, our liquidity will be affected if there is any significant decrease in demand for our products or in the availability of bank loans and debt offerings.

Cash flow

The following table presents selected cash flow data from our consolidated cash flow statements for the periods indicated.

	Year ended December 31,			Nine months ended September 30,	
	2004	2005	2006	2006	2007
				(unaudited)	
	(Rmb in millions)				
Net cash generated from operating activities	1,767.8	1,121.0	2,126.8	3,179.2	2,732.2
Net cash used in investing activities	(664.8)	(739.4)	(1,245.3)	(932.7)	(717.7)
Net cash (used)/generated from in financing activities	(1,026.2)	(22.6)	(83.7)	(2,066.2)	(1,687.1)
Net increase in cash and cash equivalents	76.8	359.0	797.8	180.3	327.4

Nine months ended September 30, 2007. Net cash generated from operating activities for the nine months ended September 2007 was Rmb 2,732.2 million. This amount primarily reflected the following: (i) our profit before income tax of Rmb 1,614.9 million for the nine months ended September 30, 2007; (ii) an increase of Rmb 2,118.5 million in our trade and other payables and amounts due to related parties as a result of our increased procurement of materials and supplies; and (iii) a decrease of Rmb 474.7 million in our bills receivables due from discounted bills as a result of our decreased discounting business during the period. The effect of these factors was partially offset by (i) an increase of Rmb 1,439.2 million in inventories primarily as a result of our increased finished trucks in transit or being refitted; and (ii) our income tax payment of Rmb 387.7 million.

Net cash used in investing activities for the nine months ended September 30, 2007 was Rmb 717.7 million, and was primarily attributable to acquisition of property, plant and equipment of Rmb 751.0 million in connection with the capacity expansion of Sinotruk Jinan Power, relocation projects of Sinotruk Hangzhou Engine and Sinotruk Jinan Commercial Truck Company, and the capacity expansion of Sinotruk Jinan Truck Company. These cash outflows were partially offset by the interest income of Rmb 70.4 million on our bank deposits.

Net cash used in financing activities for the nine months ended September 30, 2007 was Rmb 1,687.1 million, primarily reflecting (i) repayments of borrowings in the amount of Rmb 6,445.3 million; and (ii) payment of Rmb 17.0 million for professional fees and application fees relating to the listing. These cash outflows were partially offset by proceeds from bank borrowings in the amount of Rmb 3,613.6 million and a decrease in restricted cash of Rmb 1,163.0 million used as security deposits for our bank borrowings.

We had cash and cash equivalents of Rmb 2,654.3 million as of September 30, 2007, as compared with cash and cash equivalents of Rmb 1,706.9 million as of September 30, 2006.

2006. Net cash generated from operating activities in 2006 was Rmb 2,126.8 million. This amount primarily reflected the following: (i) our profit before income tax of Rmb 1,186.7 million; (ii) an increase of Rmb 2,366.2 million in our trade and other payables and amounts due to related parties as a result of increased amount of procurement of raw materials, parts and components to meet the rising truck demand in 2006; and (iii) a decrease of Rmb 118.0 million in our receivables due from discounted bills. The effect of these factors was partially offset by (i) an increase of Rmb 1,476.8 million in our trade and other receivables and amounts due from related parties resulting primarily from our increased truck sales; and (ii) a decrease of Rmb 23.4 million in termination benefits, post-employment benefits and medical insurance plan due to our benefit policy change resulting in gain on settlements in 2006.

Net cash used in investing activities in 2006 was Rmb 1,245.3 million, and was primarily attributable to acquisitions of property, plant and equipment of Rmb 1,345.4 million in connection with capacity expansions, including the expansion of manufacturing facilities of Sinotruk Hangzhou Engine, the expansion of our foundry center and equipment purchases related to the expansion of Sinotruk Jinan Axle & Transmission Company. These cash outflows were partially offset by our interest income of Rmb 124.2 million on our bank deposits.

Net cash used in financing activities in 2006 was Rmb 83.7 million, primarily reflecting (i) repayments of borrowings in the amount of Rmb 8,254.3 million; (ii) our distribution to equity holder of Rmb 72.0 million, representing primarily the amount withdrawn by our Parent Company for the Non-Listing Business; and (iii) our reorganization costs as a result of transferring certain cash and cash equivalents in the amount of Rmb 58.8 million to our Parent Company in connection with the asset injection to Sinotruk Jinan Power as part of our Reorganization on June 30, 2006. These cash outflows were partially offset by proceeds from bank borrowings in the amount of Rmb 7,114.9 million and a decrease in restricted cash of Rmb 1,206.3 million used as security deposits for our bank borrowings.

We had cash and cash equivalents of Rmb 2,321.9 million as of December 31, 2006, a net increase of Rmb 794.3 million, as compared with cash and cash equivalents of Rmb 1,527.6 million as of December 31, 2005.

2005. Net cash generated from operating activities in 2005 was Rmb 1,121.0 million. This amount primarily reflected the following: (i) our profit before income tax of Rmb 236.0 million; (ii) an increase of Rmb 1,268.5 million in our trade and other payables and amounts due to related parties as a result of a longer payment period to our suppliers implemented to better manage our operating cash needs; and (iii) a decrease of Rmb 639.8 million in our trade and other receivables and amounts due from related parties primarily due to (a) our decreased trade receivables from a related party as a result of our collection efforts in the fourth quarter of 2005, (b) our decreased prepayments for supplies as a result of our receiving the delivery of the supplies we prepaid for in the fourth quarter of 2005, and (c) decreased notes receivables from third parties as a result of their repayment of these notes receivables. The effect of these factors was partially offset by (i) an increase of Rmb 592.7 million in receivables due from discounted bills as a result of our increased volume of note discounting business; and (ii) an increase in our inventory of Rmb 406.0 million primarily as a result of a higher level of raw materials and parts and components inventory arising from our decreased truck sales.

Net cash used in investing activities in 2005 was Rmb 739.4 million, and was primarily attributable to our prepayments of Rmb 48.7 million for land use rights, and purchases of property, plant and equipment of Rmb 794.2 million in connection with our capacity expansion. These cash outflows were partially offset by our interest income on bank deposits and the repayment of the Rmb 30 million loan we granted to a third party in 2003.

Net cash used in financing activities in 2005 was Rmb 22.6 million, reflecting primarily our repayment of certain bank borrowings in the amount of Rmb 4,142.3 million; (ii) our distribution to equity holders of Rmb 279.0 million, representing primarily the amount withdrawn by our Parent Company for the Non-Listing Business; and (iii) an increase in restricted cash of Rmb 2,946.7 million pledged for our bank borrowings and notes payables. These cash outflows were partially offset by our net proceeds from additional bank borrowings and issuance of the short-term commercial paper.

We had cash and cash equivalents of Rmb 1,527.6 million as of December 31, 2005, a net increase of Rmb 357.6 million from cash and cash equivalents of Rmb 1,170.0 million as of December 31, 2004.

2004. Net cash generated from operating activities in 2004 was Rmb 1,767.8 million. This amount primarily reflected the following: (i) our profit before income tax of Rmb 551.6 million; (ii) a decrease of Rmb 475.9 million in our trade and other receivables and amounts due from related parties primarily due to our decreased notes receivable and trade receivables as a result of the new incentives we provided to customers who pay in cash and the higher discounting rate on bank acceptance notes in 2004; and (iii) an increase of Rmb 1,695.0 million in our trade and other payables and amounts due to related parties as a result of the increased procurement costs of raw materials, parts and components due to our increased truck sales. The effect of these factors was partially offset by: (i) an increase in our inventory of Rmb 870.2 million as a result of a larger number of trucks in transit and trucks to be refitted due to our increased truck sales; and (ii) an increase in restricted cash of Rmb 104.3 million as security deposits for our notes payables arising in the ordinary course of business.

Net cash used in investing activities in 2004 was Rmb 664.8 million, and was primarily attributable to our prepayments of Rmb 144.3 million for land use rights, and purchases of property, plant and equipment of Rmb 687.0 million in connection with capacity expansion and product development, including establishing a parts manufacturing center in Jinan, and the acquisition of assembly lines and equipment for truck frame and HOWO cabins. These cash outflows were partially offset by the proceeds of Rmb 72.0 million from disposal of certain property, plant and equipment.

Net cash used in financing activities in 2004 was Rmb 1,026.2 million, primarily reflecting our repayment of bank borrowings of Rmb 3,336.3 million and distribution to equity holders of Rmb 338.1 million by our Parent Company, representing primarily the payment we made in 2004 on behalf of the Non-Listing Business with respect to the amount we received on behalf of such Non-Listing Business in 2003, and an increase in restricted cash of Rmb 1,312.4 million as pledged deposits. These cash outflows were partially offset by our proceeds of Rmb 3,960.6 million from bank borrowings.

We had cash and cash equivalents of Rmb 1,170.0 million as of December 31, 2004, a net increase of Rmb 76.8 million from cash and cash equivalents of Rmb 1,093.2 million as of December 31, 2003.

Net current assets/liabilities and capital resources

	As of December 31,			As of September 30,
	2004	2005	2006	2007
	(Rmb in millions)			
Current assets				
Inventories	2,142.9	2,521.5	2,610.4	4,062.0
Trade and other receivables	1,666.7	995.6	4,097.6	2,745.3
Loans and receivables	30.0	592.7	474.7	—
Amounts due from related parties	1,569.9	1,528.4	96.3	88.7
Restricted cash	2,728.6	5,655.2	2,846.4	1,663.4
Cash and cash equivalents	1,170.0	1,527.6	2,321.9	2,654.3
Sub total	9,308.1	12,821.0	12,447.3	11,213.7
Current liabilities				
Trade and other payables	4,904.7	5,424.3	3,673.8	7,060.3
Current income tax liabilities	0.6	20.3	132.1	317.1
Borrowings	5,223.4	9,194.7	7,775.6	2,872.5
Amounts due to related parties	387.0	528.0	1,794.6	68.6
Provisions for other liabilities and charges	63.1	51.5	70.4	213.5
Sub total	10,578.8	15,218.8	13,446.5	10,532.0
Total net current (liabilities)/assets	(1,270.7)	(2,397.8)	(999.2)	681.7

Equity

Our equity was negative as of December 31, 2004 and 2005 mainly because our Parent Company was loss making prior to its restructuring in 2000. In connection with our Listing, our financial information was prepared to present our financial conditions as if we had been in existence throughout the Track Record Period and as if our Company is the holding company of the Listing Business since the beginning of the Track Record Period. As of January 1, 2004, the equity of the Listing Business as a whole was negative due to the historical accumulated losses. On June 30, 2006, the effective date of our Reorganization, the assets and liabilities which were historically associated with and formed a part of the Listing Business were retained by or transferred to the Parent Company as described in "— Basis of Presentation." The impact of transferring/retaining a majority of these liabilities, consisting primarily notes payable and short-term borrowings, amounting to approximately Rmb 2.1 billion, was reflected as capital contributions by the Parent Company to us on June 30, 2006. As a result of such capital contributions, our equity turned into positive after June 30, 2006. As of September 30, 2007, our equity increased to Rmb 2,656.6 million from Rmb 1,585.0 million at the end of 2006 as a result of our improved profitability.

As of September 30, 2007, we had a working capital of Rmb 681.7 million, which was a significant improvement from a previous working capital deficit. Our directors believe that we have sufficient financial resources to meet our existing capital requirements, including:

- Cash generated from our operations;
- Banking facilities of approximately Rmb 11.5 billion as of September 30, 2007, of which approximately Rmb 7.0 billion remained undrawn as of such date, compared with banking facilities of approximately Rmb 6.9 billion and undrawn facilities of approximately Rmb 1.4 billion, respectively, as of December 31, 2006. Although such borrowings are due within one year, the banks have advised us that such terms will be automatically extended to March 30, 2009 at the earliest; and
- The proceeds of this offering.

Trade and other receivables

Our trade receivables consist of accounts receivables and notes receivables. Notes receivable, which account for a majority of our trade receivables, mostly consist of bank notes. This reflects our sales practice that we generally do not extend trade credit to our customers and a large portion of our sales are settled by bank notes.

The following table describes our trade receivables as of the dates indicated:

	As of December 31,			As of September 30,
	2004	2005	2006	2007
	(Rmb in thousands)			
Accounts receivables	560,880	428,725	441,541	1,107,689
Less: Provision for impairment of accounts receivables	(78,523)	(62,649)	(23,949)	(25,839)
Accounts receivables — net	482,357	366,076	417,592	1,081,850
Notes receivables	587,931	174,850	3,325,306	978,594
Trade receivables — net	**1,070,288**	**540,926**	**3,742,898**	**2,060,444**

As of September 30, 2007, we had notes receivables in the amount of Rmb 978.6 million primarily consisting of approximately Rmb 918.8 million bank notes issued by third parties for truck sales. In addition, we had account receivables in the amount of Rmb 1,107.7 million, of which, approximately Rmb 795.1 million were secured by letters of credit issued by overseas third parties.

As of December 31, 2006, we had notes receivables in the amount of Rmb 3,325.3 million consisting of the following: (i) approximately Rmb 2,466.6 million issued by our Parent Company and related parties to finance our working capital, most of which was not related to our truck sales but rather related to bank/commercial notes we issued to our internal counterparties; and (ii) approximately Rmb 858.7 million obtained from our external customers in connection with our product sales, all of which consisted of bank acceptance notes. As of December 31, 2004 and 2005, our notes receivables in the amount of Rmb 587.9 million and Rmb 174.9 million primarily consisted of bank acceptance notes received from third parties relating to truck sales respectively.

In practice, the delivery of bank acceptance notes is viewed as effective payment by businesses in China. As such, we excluded notes receivables and used only the average balances of our gross accounts receivables as our basis in calculating our turnover of trade receivables during the periods indicated as shown in the following table:

	Year ended December 31,			Nine months ended September 30,
	2004	2005	2006	2007
Accounts receivable turnover (days)	22	20	12	13

The accounts receivable turnover is calculated using the following formula:

Accounts receivable turnover (days) = average accounts receivable balance for the period / revenue x 365 days for a year or 270 days for a nine-month period.

Accounts receivable turnover improved during the Track Record Period as our sales volume increased. Had we included all trade receivable balances (including accounts receivables and notes receivables), the trade receivable turnover (days) would have been 46, 35, 62 days and 49 days for 2004, 2005, 2006 and the nine months ended September 30, 2007, respectively. See note 10 to the Accountants' Report included in this prospectus.

Our trade receivable turnover decreased from 46 days in 2004 to 35 days in 2005 primarily because we strengthened the policies on extending trade credit to our customers in 2005. Our trade receivable turnover increased from 35 days in 2005 to 62 days in 2006 primarily as a result of the increased discounted bank/commercial notes from trade financing. Our trade receivable turnover decreased to 49 days for the nine months ended September 30, 2007 primarily due to our increased sales and decreased notes receivable balance.

The following table sets forth an aging analysis for our trade receivables as of the dates indicated:

	As of December 31,			As of September 30,
	2004	2005	2006	2007
	(Rmb in thousands)			
Less than 3 months	383,886	222,149	2,481,588	919,840
3 months to 6 months	666,288	218,212	1,249,635	370,088
6 months to 12 months	12,190	3,979	9,484	779,437
1 year to 2 years	44,616	120,019	23,453	14,101
2 years to 3 years	21,815	12,285	2,465	2,463
Over 3 years	20,016	26,931	222	354
	1,148,811	603,575	3,766,847	2,086,283

We grant trade credit of up to 90 days to our selected long-term key domestic customers after approval by our general managers. Our trade receivables of six months to 12 months old increased from Rmb 9.5 million as of December 31, 2006 to Rmb 779.4 million as of September 30, 2007, most of which arose from the fact that we settled a large amount of export sales to overseas customers via letters of credit, and most of such letters of credit had terms of six to 12 months. Our trade receivables of one to two years increased from Rmb 44.6 million in 2004 to Rmb 120.0 million in 2005, primarily due to the longer credit period that Hangzhou Engine Factory extended to Chongqing Hongyan for engine sales during the relevant period. Such accounts receivables were part of the assets retained by our Parent Company pursuant to the Reorganization effective on June 30, 2006 as further described in "— Basis of Presentation". Our Parent Company subsequently settled these accounts receivables with Chongqing Hongyan.

Because we had a large number of customers, we do not believe that we had any material concentration of credit risks with respect to our trade receivables.

The following table describes our other receivables as of the dates indicated:

	As of December 31,			As of September 30,
	2004	2005	2006	2007
	(Rmb in thousands)			
Jinan Huaiyin Real Estate Company	40,718	35,632	—	—
Jinan Land Reserve Center	128,656	41,817	—	—
Qilukaoger Company	3,000	24,658	—	—
Dongxing Property Company	30,500	2,000	1,500	—
Jinan Sanjian Property Development Company	118,671	69,674	48,522	48,522
Staff Advances	15,600	10,888	6,672	7,786
Others	124,259	63,400	56,527	143,772
Total	**461,404**	**248,069**	**113,221**	**200,080**

Our receivables with Jinan Huaiyin Real Estate Company were related to the prepayment for the transfer of a dormitory, and these receivables were settled in 2006. Our receivables with Jinan Land Reserve Center were related to the sales of land use rights of approximately Rmb 580 million, which sales were completed and the receivables were settled in 2006. Our receivables with Qilukaoger Company and Dongxing Property Company were related to the sales of land use rights, sales of which had been completed, and the receivables were settled in 2006 and September 2007, respectively. Our receivables with Jinan Sanjian Property Development Company ("Jinan Sanjian") were related to the sales of land use rights, which will be settled through Jinan Sanjian's future provision of construction services to us. We expect the receivables with Jinan Sanjian will be settled before June 30, 2008, when the construction services provided by Jinan Sanjian is estimated to be completed. None of the above companies are related to or affiliated with us.

Inventories

Our inventories consist of raw materials, work in progress and finished goods. We record our inventories at the lower of cost and net realizable value. Cost is determined using the weighted average method. The cost of finished goods and work in progress comprises design costs, raw materials, direct labor, other direct costs and related production overhead (based on normal operating capacity). It excludes borrowing costs. Net realizable value is the estimated selling price in the ordinary course of business, less applicable variable selling expenses.

The following table describes our inventories as of the dates indicated:

	As of December 31,			As of September 30,
	2004	2005	2006	2007
	(Rmb in thousands)			
Raw materials	610,081	796,151	804,436	793,049
Work in progress	300,292	219,253	287,833	258,304
Finished goods - axles and engines	420,025	261,124	294,977	187,906
Finished goods - trucks	925,194	1,385,019	1,308,020	2,895,243
Less: Provision for write-down of inventories	(112,655)	(140,015)	(84,868)	(72,540)
	2,142,937	2,521,532	2,610,398	4,061,962

The following table sets forth the cost of inventories we recognised as expenses and included in our cost of sales during the periods indicated:

	Year ended December 31,			As of September 30,
	2004	2005	2006	2007
	(Rmb in thousands)			
Distribution cost	353	207	174	1,626
Administrative expenses	15,004	9,889	12,512	7,514
Cost of sales	7,798,098	6,893,985	9,161,667	11,623,324
	7,813,455	6,904,081	9,174,353	11,632,464

Finished trucks account for a significant portion of our inventories. Our high level of finished truck inventories is due primarily to (i) our strict credit sale policy under which we generally require our customers to fully pay for the trucks by cash or bank notes before we deliver the truck, and as a result, trucks which are ordered but not fully paid for by the customers and the trucks being delivered to customers remain as part of our inventories, and (ii) the large number of truck chassis we ship to refitting companies for further modification to be refitted into specialty vehicles per customer orders, which are recorded as inventory. Our inventory of work in progress is relatively less significant as we typically have a short production lead time on general assembly, typically ranging from seven days to 10 days. We generally begin assembly of heavy trucks upon receipt of a purchase order. In order to promptly fill purchase orders, we maintain a reasonable amount of inventories of raw materials and parts and components. Our finished trucks as of September 30, 2007 were Rmb 2,895.2 million, representing an increase of Rmb 1,587.2 million from our finished truck inventory at the end of 2006. The increase was primarily due to our increased number of trucks in transit to our customers or being refitted according to customers' specifications for the nine months ended September 30, 2007. As of September 30, 2007, we had approximately 15,709 units of finished trucks in inventory, of which approximately 4,800 units were sold subsequently as of the Latest Practicable Date.

The following table sets forth the inventory turnover during the periods indicated:

	Year ended December 31,			Nine months ended September 30,
	2004	2005	2006	2007
Inventory turnover (days)	73	107	89	68

Inventory turnover = average inventory balance for the period/cost of sales x 365 days for a year or 270 days for a nine-month period.

Inventory turnover (days) increased significantly from 73 days in 2004 to 107 days in 2005 due to the decreased sales caused by an industry-wide slow down in 2005. In 2006 inventory turnover days improved to 89 days primarily due to the recovery of the market and our strengthened inventory management system after we completed the upgrade of our MIS system. For the nine months ended September 30, 2007, our inventory turnover days further improved to 68 days as a result of the increased market demand for our trucks.

Trade and other payables

Our trade and other payables consist of trade and bills payables, advances from customers, staff welfare and salaries payables, taxes other than our corporate income tax liabilities, accrued expenses and other payables. We recognize our trade payables initially at their fair value and subsequently value them at their amortized cost using the effective interest method. The general payment periods for trade payables are one to six months.

The following table describes our trade and other payables as of the dates indicated:

	As of December 31,			As of September 30,
	2004	2005	2006	2007
	(Rmb in thousands)			
Trade and bills payables	3,281,194	3,960,201	3,023,345	5,932,941
Advances from customers	345,849	415,418	251,238	482,286
Staff welfare and salaries payable	119,190	130,638	40,065	106,612
Taxes other than income tax liabilities	132,516	81,297	30,253	23,444
Accrued expenses	105,794	40,126	91,130	176,459
Other payables	920,189	796,664	237,766	338,594
	4,904,732	5,424,344	3,673,797	7,060,336

The following table sets forth the trade and bills payable turnover during the periods indicated.

	Year ended December 31,			Nine months ended September 30,
	2004	2005	2006	2007
Trade and bills payable turnover (days)	106	166	121	92

The trade and bills payables turnover is calculated using the following formula:

Trade and bills payable turnover days = average trade and bills payable balance for the period / cost of sales x 365 days for a year or 270 days for a nine-month period.

Our suppliers generally grant credit terms of 30 to 90 days to us. However, it is generally accepted by the suppliers that we use bank notes to settle trade balances upon the expiration of the credit terms. In 2006, approximately 40% of our trade payables are settled by bank notes, 35% are settled by cash and 25% are settled by commercial notes. Through payment by bank/commercial notes, we obtain additional 180 days credit from banks, and essentially extend our payment time for the purchases. As the average trade and bills payable turnover days are calculated taking into account the actual payment time and include both trade payables and bills payables, they are generally longer than the credit terms granted to us.

Trade and bills payable turnover (days) increased significantly from 106 days in 2004 to 166 days in 2005 due to our longer payment period as a result of the industry-wide slow down in 2005. In 2006 turnover days decreased to 121 days as the market recovered and our sales increased. For the nine months ended September 30, 2007, our trade and bills payable turnover days further decreased to 92 days primarily due to our increased cost of sales resulting from our increased sales and faster payments to our suppliers as a result of our improved working capital during the period.

The following table sets forth an aging analysis for our trade and bills payables as of the dates indicated:

	As of December 31,			As of September 30,
	2004	2005	2006	2007
	(Rmb in thousands)			
Less than 3 months	108,317	49,972	2,538,736	4,603,975
3 months to 6 months	3,029,365	3,868,609	56,714	497,327
6 months to 12 months	66,700	801	368,696	793,560
1 year to 2 years	52,298	15,783	42,995	19,164
2 years to 3 years	10,732	4,151	14,717	14,155
Over 3 years	13,782	20,885	1,487	4,760
	3,281,194	3,960,201	3,023,345	5,932,941

Indebtedness

Borrowings

Our total borrowings as of December 31, 2004, 2005, 2006 and September 30, 2007, were Rmb 6,356.4 million, Rmb 10,170.8 million, Rmb 8,182.9 million and Rmb 4,554.7 million, respectively. The following table sets forth our guaranteed loans, secured and unsecured loans as of the respective balance sheet date:

	As of December 31,			As of September 30,
	2004	2005	2006	2007
	(Rmb in thousands)			
Non-current				
Long-term bank borrowings				
guaranteed	1,130,167	633,750	405,750	—
secured	2,879	2,397	1,623	422,795
unsecured	—	340,000	—	1,259,448
	1,133,046	976,147	407,373	1,682,243
Current				
Long-term bank borrowings, current portion				
guaranteed	78,870	19,156	—	—
secured	140,585	140,568	423	3,408
unsecured	348,968	8,968	—	—
	568,423	168,692	423	3,408
Short-term bank borrowings				
guaranteed	495,889	685,847	830,000	—
secured	3,978,151	6,453,352	5,947,131	765,076
unsecured	180,900	908,769	998,003	2,104,000
	4,654,940	8,047,968	7,775,134	2,869,076
Short-term commercial paper	—	978,036	—	—
	5,223,363	9,194,696	7,775,557	2,872,484
Total borrowings	**6,356,409**	**10,170,843**	**8,182,930**	**4,554,727**

For 2004, 2005 and 2006, our long-term bank borrowings were generally at an amount lower than our short-term bank borrowings in order to save interest cost as the interest rates for long-term bank borrowings were relatively higher than that of the short-term bank borrowings. For the nine months ended September 30, 2007, we reduced our short-term borrowings and incurred more long-term bank borrowings with a view to optimizing our debt structure. As of September 30, 2007, our bank borrowings of approximately Rmb 1,191.3 million were secured by certain land use rights, bank balances, bank acceptance notes and certain loans to related parties. As of the Latest Practicable Date, all of the guarantees provided by our Parent Company were released by the relevant lending banks.

The following table sets forth the carrying amounts of our total borrowings as of the respective balance sheet date:

	As of December 31,			As of September 30,
	2004	2005	2006	2007
	(Rmb in thousands)			
Renminbi borrowings	5,847,752	9,733,355	8,182,930	4,512,448
U.S. dollar borrowings	82,889	437,488	—	—
Euro borrowings	425,768	—	—	—
HK dollar borrowings	—	—	—	42,279
Total	**6,356,409**	**10,170,843**	**8,182,930**	**4,554,727**

The following table sets forth the weighted average effective interest rates of our borrowings as of the respective balance sheet date:

	As of December 31,			As of September 30,
	2004	2005	2006	2007
Bank borrowings				
Renminbi	4.57%	5.07%	4.55%	5.65%
U.S. dollar	2.93	4.72	—	—
Euro	4.50%	—	—	—
HK dollar	—	—	—	5.01%
Short-term bonds				
Renminbi	—	3.62%	—	—

Interest rates of the bank borrowings denominated in Renminbi are reset periodically according to the primary rate announced by PBOC. The interest rates of our borrowings denominated in Euro and our short-term bonds were fixed. Our borrowings denominated in U.S. dollar and HK dollar were at variable rates.

The following table sets forth the maturities of our total borrowings as of the respective balance sheet dates:

	As of December 31,			As of September 30,
	2004	2005	2006	2007
	(Rmb in thousands)			
Within 1 year	5,223,363	9,194,696	7,775,557	2,872,484
Between 1 and 2 years	402	600,404	60,416	1,317,106
Between 2 and 5 years	279,250	1,643	1,205	355,973
Wholly repayable within 5 years	5,503,015	9,796,743	7,837,178	4,545,563
Over 5 years	853,394	374,100	345,752	9,164
Total	**6,356,409**	**10,170,843**	**8,182,930**	**4,554,727**

As of September 30, 2007, our outstanding bank borrowings due within one year were Rmb 2,872.5 million, with annual interest rates ranging from 3.12% to 7.29%. See "Indebtedness" in this section for further details on our borrowings.

Our gearing ratio was 55.4%, 64.5%, 52.7% and 30.5% as of December 31, 2004, 2005, 2006 and September 30, 2007, respectively. The gearing ratio is calculated by dividing our borrowings by our total assets and has not taken into account the proceeds from the Global Offering.

Provisions for other liabilities and charges

	Legal claims	Product warranties	Total
		(Rmb in thousands)	
As of January 1, 2004	4,969	34,691	39,660
Additional provision	3,591	127,969	131,560
Utilized during the year	—	(108,129)	(108,129)
As of December 31, 2004	8,560	54,531	63,091
Additional provision	3,199	89,914	93,113
Utilized during the year	—	(104,743)	(104,743)
As of December 31, 2005	11,759	39,702	51,461
Additional provision	51	169,900	169,951
Utilised during the year	—	(143,064)	(143,064)
Transfer to CNHTC resulting from the Reorganisation	(7,953)	—	(7,953)
As of December 31, 2006	3,857	66,538	70,395
Additional provision	436	197,128	197,564
Utilized during the period	—	(54,454)	(54,454)
As of September 30, 2007	4,293	209,212	213,505

The amounts under legal claims represented provisions for certain legal claims brought against us. The provision charge is recognized in our income statement as administrative expenses. The Rmb 8.0 million of legal claims were transferred on CNHTC in the year 2006 as they were claims related to the Non-Listing Business. The utilization of the respective amounts of provision for product warranties for 2004, 2005, 2006 and the nine months ended September 30, 2007 was for actual payment for warranty services performed during the respective year.

Contingencies

We have contingent liabilities in respect of legal claims arising in the ordinary course of business. We do not anticipate any material liabilities to arise from the contingent liabilities other than those provided for in note 31 to the Accountants' Report.

The following table sets forth our outstanding loan guarantees as of the dates indicated:

	As of December 31,			As of September 30,
	2004	2005	2006	2007
	(Rmb in thousands)			
Outstanding loan guarantees provided to related parties	232,254	200,890	390,000	—
Outstanding loan guarantees provided to third parties	150,000	210,000	—	—
	382,254	410,890	390,000	—

All above guarantees have been released as of September 30, 2007.

Except as disclosed in this prospectus, we confirm that there has not been any material change in our contingent liabilities since September 30, 2007.

Capital Expenditures and Commitments

Capital expenditures

Our capital expenditures are primarily used to expand our production capacity and upgrade our existing plants and equipment. We made capital expenditures of Rmb 963.1 million, Rmb 974.7 million, Rmb 1,162.7 million and Rmb 830.0 million for 2004, 2005, 2006 and the nine months ended September 30, 2007, respectively. These capital expenditures were funded by bank loans and our internally generated funds.

As part of our business development strategy, we have approved capital expenditures aggregating approximately Rmb 1.5 billion, Rmb 1.3 billion and Rmb 1.1 billion for 2007, 2008 and 2009, respectively. Our current estimate of capital expenditure by segment for 2007 and 2008 is as follows.

	Year ended December 31,		
	2007	2008	2009
	(Rmb in millions)		
Trucks	690	470	370
Engines	780	790	605
Corporate & others	30	40	100
Total	1,500	1,300	1,075

We anticipate that the capital expenditures listed above will be financed by the internally generated funds, net proceeds from the Global Offering attributable to us and bank borrowings. Our current plan with respect to future capital expenditures is subject to change as our business plan evolves or market conditions change.

Capital commitments

Set forth below is our capital commitments contracted for as of September 30, 2007:

	As of September 30, 2007
	(Rmb in millions)
Property, plant and equipment	947.3

Our capital commitments as of September 30, 2007 were primarily for manufacturing capacity expansion of Sinotruk Jinan Power, relocation of Sinotruk Hangzhou Engine and Sinotruk Jinan Commercial Truck Company.

Contractual commitments

Our contractual commitments consist primarily of payment obligations under our various bank borrowings and our operating lease arrangements. We lease certain of our land use rights and office premises and our operating lease obligations represent our minimum lease payment obligations under these non-cancellable operating leases. As of September 30, 2007, our contractual commitments were as follows:

	Payment Due within				
	Total	**1 year**	**1 to 2 years**	**2 to 5 years**	**over 5 years**
			(Rmb in thousands)		
Bank borrowings	4,554,727	2,872,484	1,317,106	355,973	9,164
Operating lease obligations	48,442	26,506	11,265	10,671	—
Total	**4,603,169**	**2,898,990**	**1,328,371**	**366,644**	**9,164**

Off-balance Sheet Arrangements

Except for the contingent liabilities set forth above, we have not entered into any off-balance sheet guarantees or other commitments to guarantee the payment obligations of any third parties. We do not have any variable interest in any unconsolidated entity that provides financing, liquidity, market risk or credit support to us or engages in leasing or hedging or research and development services with us.

Working Capital

Taking into account the net cash flow from operating activities, the available existing banking facilities (including the committed renewal or extensions of these banking facilities upon their expiration or their subsequent new banking facilities) and the estimated net proceeds from the Global Offering, our Directors are satisfied that we have sufficient working capital for at least the next 12 months from the date of this prospectus.

Profit Forecast

We believe that, in the absence of unforeseen circumstances and on the bases and assumptions set out in Appendix III to this prospectus, our forecast consolidated profit attributable to equity holder of our company for the year ending December 31, 2007 is unlikely to be less than Rmb 1,003.3 million.

Forecast consolidated profit attributable to equity holder of our company	not less than Rmb 1,003.3 million
Forecast pro forma basic earnings per Share	not less than Rmb 0.46 (HK$0.47)

The bases and assumptions on which we have prepared the above profit forecast are set out in Appendix III to this prospectus.

The calculations of forecast pro forma basic earnings per Share assume no exercise of the Over-allotment Option.

The calculation of the forecast basic earnings per Share on a pro forma basis is based on the forecast consolidated profit attributable to equity holders of our company for the year ending December 31, 2007 and assuming a total of 2,202,000,000 Shares were in issue during the entire year.

Dividend Policy

Our Directors intend to declare dividends, if any, in Hong Kong dollars with respect to Shares on a per Share basis and will pay such dividends in Hong Kong dollars. Any final dividend for a fiscal financial year will be subject to shareholders' approval.

Considering our financial position, our Directors currently intend, subject to certain limitations, and in the absence of any circumstance which might reduce the amount available for distribution whether by losses or otherwise, to distribute to our Shareholders not less than 15% of our profits available for distribution in respect of the year ending December 31, 2007, and, for subsequent years, a portion of our profits available for distribution. There is, however, no assurance that dividends of such amount or any amount will be declared or distributed in any year. The declaration and the amount of dividends are in the sole discretion of our Directors, subject to our results of operations, financial condition, capital requirements and any other factors which the Board may deem relevant.

We are a holding company incorporated in Hong Kong and conduct our core business operations through our operating subsidiaries in China. As a result, our profits available for dividend distribution are dependent on the profits available for distribution from our PRC subsidiaries. The PRC laws permit payment of dividends only out of net income as determined in accordance with PRC accounting standards and regulations. Determination of net income under PRC accounting standards and regulations may differ from determination under HKFRS in significant aspects, such as the use of different principles for recognition of revenues and expenses. Our PRC subsidiaries are required to set aside a portion of their net income each year to fund designated statutory reserve funds in connection with certain mandatory social welfare programs. These reserves are not distributable as cash dividends. As a result, our primary source of funds for dividend payments is subject to these and other legal restrictions and uncertainties.

Market Risks

Interest rates

Our income and operating cash flows are substantially independent of fluctuations in market interest rates as we have no significant interest-bearing assets. Our exposure to interest rates risk is mainly attributable to our borrowings. An interest rate hike would increase our financing costs and also adversely affect the ability of prospective buyers of heavy trucks to obtain financing and hence our sales and results of operations. Historically we have not used any financial instruments to hedge against interest rate risks.

Inflation and deflation

There has not been significant inflation or deflation in China in recent years, and thus neither inflation nor deflation has had a significant effect on our business during the past three years. According to the National Bureau of Statistics of China, China's overall national inflation rate, as represented by percentage increases in the general consumer price index, was 3.9%, 1.8% and 1.5% for 2004, 2005 and 2006 respectively.

Foreign exchange fluctuations

Our functional currency is Renminbi as most of our transactions are settled in Renminbi. However, foreign currencies are required to settle our sales in overseas and our purchases of imported parts prior to 2005 and purchases of equipment. Prior to 2006, we also had debt obligations denominated in U.S. Dollars and Euro. Thus, foreign currency fluctuations, particularly fluctuations in the U.S. Dollar and Euro against the Renminbi have affected, and will continue to affect, our results of operations. See "Risk Factors — Risks Relating to Conducting Business in China — We are subject to foreign exchange regulations and controls in China" and "— We may become vulnerable to exchange rate fluctuations" for further details. Historically we have not used any financial instruments to hedge against foreign exchange risks.

Fluctuation in the price of certain commodities

Our primary exposure to commodity risk arises from our procurement of certain raw materials, such as steel and iron, as well as the price of energy used in the manufacturing process. For details, see the section entitled "Risk Factors — Risks Relating to Our Business — If our suppliers fail to deliver parts and components and raw materials on a timely basis or meet our product quality standards, our business could be adversely affected" in this prospectus. We currently do not hedge against commodity risk, which we believe is in line with the PRC automotive industry practice.

Unaudited Pro Forma Net Tangible Assets

The following is an illustrative and unaudited pro forma statement of our adjusted net tangible assets which has been prepared on the basis of the notes set out below for the purpose of illustrating the effect of the Global Offering as if it had taken place on September 30, 2007. This unaudited pro forma statement of adjusted net tangible assets has been prepared for illustrative purposes only and because of its hypothetical nature, it may not give a true picture of financial position had the Global Offering been completed as at September 30, 2007 or at any future date.

	Adjusted consolidated net tangible assets attributable to equity holders of the company as at September 30, 2007	Estimated net proceeds from the Global Offering	Unaudited pro forma adjusted net tangible assets	Unaudited pro forma adjusted net tangible assets per Share	Unaudited pro forma adjusted net tangible assets per Share
	(Note 1)	(Note 2)		(Note 3)	(Note 3)
		(Rmb in thousands)		Rmb	HK$ equivalent
Based on low-end of the indicative offer price range of HK$10.00 Per Share	1,766,096	6,357,805	8,123,901	3.69	3.84
Based on high-end of the indicative offer price range of HK$12.88 per Share	1,766,096	8,201,773	9,967,869	4.53	4.71

(1) The adjusted consolidated net tangible assets attributable to the equity holders of our company as at September 30, 2007 is extracted from the Accountants' Report set out in Appendix I to this prospectus, after deducting intangible assets of approximately Rmb 5,896,000.

(2) The estimated net proceeds from the Global Offering are based on the respective low and high ends of the indicative offer price range of HK$10.00 and HK$12.88 per Share, after deduction of the underwriting fees and other related expenses payable by our company. The estimated net proceeds are converted into Renminbi at the rate of RMB0.96035 to HK$1.00.

(3) The unaudited pro forma net tangible assets per Share is arrived at after the adjustments referred to in the preceding paragraph and on the basis that 2,202,000,000 Shares were in issue immediately following the completion of the Global Offering. The unaudited pro forma net tangible assets per Share is converted into Renminbi at the rate of RMB0.96035 to HK$1.00.

With reference the valuation of the property interests as set out in Appendix IV to this prospectus, the net revaluation surplus, representing the excess of market value of the property interests over their book value is about Rmb 870,976,000. Such net revaluation surplus has not been included in our consolidated financial information as at September 30, 2007 and will not be included in our financial statements for the year ending December 31, 2007. It is our accounting policy to state our property, plant and equipment and land use rights at cost less accumulated depreciation or accumulated amortization and any impairment losses rather than at revalued amounts. The above adjustment does not take into account the above revaluation surplus or the related additional depreciation or amortization. Had the property interests been stated at such valuation, an additional depreciation and amortization of Rmb 4,515,000 and Rmb 14,627,000 per annum, respectively, would be charged against the consolidated income statement.

No adjustment has been made to the unaudited pro forma adjusted net tangible assets to reflect any of our trading results or other transactions entered into subsequent to September 30, 2007.

No Material Adverse Change

We confirm that there is no material adverse change in our financial or trading position since September 30, 2007 (being the date to which our latest consolidated financial results were prepared as set out in the Accountants' Report set out in Appendix I to this prospectus).