中国重汽
SINOTRUK

Sinotruk (Hong Kong) Limited

中 國 重 汽 （ 香 港 ） 有 限 公 司

(incorporated in Hong Kong with limited liability)

(Stock Code: 3808)

Announcement on Interim Results For the Six Months Ended 30 June 2008

Financial Highlights

- Sales of heavy duty trucks were 67,694 units, representing an increase of 57.2% over the same period last year.

  Of these, 8,498 units were export heavy duty trucks, representing an increase of 46.6% over the same period last year.

- Turnover was RMB16,924 million, representing an increase of 50.1% over the same period last year.

  (Equivalent to HK$19,250 million, representing an increase of 66.3%).

- Net profit after minority interest was RMB 768 million, representing an increase of 39.9% over the corresponding period last year.

  (Equivalent to HK$873 million, representing an increase of 55%).

The board of directors (the "Board") of Sinotruk (Hong Kong) Limited (the "Company") is pleased to announce the unaudited consolidated results of the Company and its subsidiaries (together the "Group") for the six months ended 30 June 2008. The results have been reviewed by PricewaterhouseCoopers, our auditors, in accordance with Hong Kong Standard on Review Engagements 2410, "Review of Interim Financial Information Performed by the Independent Auditor of the Entity", and have been reviewed by the Audit Committee of the Company.

CONDENSED CONSOLIDATED INCOME STATEMENT

FOR THE SIX MONTHS ENDED 30 JUNE 2008

(All amounts in Renminbi ("RMB") thousands unless otherwise stated)

		Six months ended 30 June	
	Note	**2008**	**2007**
		Unaudited	*Unaudited*
Turnover	4	16,923,804	11,276,673
Cost of goods sold		(14,490,895)	(9,255,997)
Gross profit		2,432,909	2,020,676
Distribution costs		(665,630)	(490,584)
Administrative expenses		(435,625)	(407,017)
Other (losses)/gains - net		(86,656)	38,267
Operating profit	5	1,244,998	1,161,342
Finance income		151,275	54,473
Finance costs		(103,646)	(91,405)
Finance income/(costs) - net		47,629	(36,932)
Profit before income tax		1,292,627	1,124,410
Income tax expense	6	(332,837)	(423,338)
Profit for the period		959,790	701,072

CONDENSED CONSOLIDATED INCOME STATEMENT (continued)

FOR THE SIX MONTHS ENDED 30 JUNE 2008

(All amounts in RMB thousands unless otherwise stated)

	Note	Six months ended 30 June 2008 *Unaudited*	2007 *Unaudited*
Attributable to:			
- equity holders of the Company		767,899	549,038
- minority interest		191,891	152,034
		959,790	701,072
Earnings per share for profit attributable to equity holders of the Company during the period (expressed in RMB per share)			
- basic & diluted	7	0.34	0.37
Dividends paid to equity holders of the Company	8	(145,112)	—
Dividends paid to minority interest	8	—	(1,346)

CONDENSED CONSOLIDATED BALANCE SHEET

AS AT 30 JUNE 2008

(All amounts in RMB thousands unless otherwise stated)

	Note	**30 June 2008** *Unaudited*	**31 December 2007** *Audited*
ASSETS			
Non-current assets			
Land use rights		337,662	319,204
Property, plant and equipment		5,140,826	4,187,580
Intangible assets		10,322	5,901
Deferred income tax assets		165,663	203,426
Total non-current assets		5,654,473	4,716,111
Current assets			
Inventories		4,366,949	4,247,745
Trade and other receivables	9	10,274,948	2,856,879
Discounted bills		562,602	—
Amounts due from related parties		260,421	169,645
Restricted cash		2,127,356	2,098,057
Cash and cash equivalents		5,953,278	10,077,093
Total current assets		23,545,554	19,449,419
Total assets		29,200,027	24,165,530

CONDENSED CONSOLIDATED BALANCE SHEET (continued)

AS AT 30 JUNE 2008

(All amounts in RMB thousands unless otherwise stated)

	Note	**30 June 2008**	**31 December 2007**
		Unaudited	*Audited*
EQUITY			
Capital and reserves attributable to equity holders of the Company			
Share capital		219,648	219,648
Statutory reserves		219,314	219,314
Capital reserves		8,003,901	8,003,901
Merger reserve		1,045,473	1,045,473
Translation reserve		(2,136)	(4,871)
Retained earnings		2,126,401	1,503,614
		11,612,601	10,987,079
Minority interest		1,143,629	916,228
Total equity		12,756,230	11,903,307
LIABILITIES			
Non-current liabilities			
Borrowings		920,551	924,427
Deferred income tax liabilities		4,934	—
Termination benefits, post-employment benefits and medical insurance plan		70,750	81,550
Total non-current liabilities		996,235	1,005,977

CONDENSED CONSOLIDATED BALANCE SHEET (continued)

AS AT 30 JUNE 2008

(All amounts in RMB thousands unless otherwise stated)

	Note	**30 June 2008** *Unaudited*	**31 December 2007** *Audited*
Current liabilities			
Trade and other payables	10	10,590,453	6,579,546
Current income tax liabilities		154,525	41,632
Borrowings		4,497,576	4,457,188
Amounts due to related parties		41,037	25,254
Provisions for other liabilities		163,971	152,626
Total current liabilities		15,447,562	11,256,246
Total liabilities		16,443,797	12,262,223
Total equity and liabilities		29,200,027	24,165,530
Net current assets		8,097,992	8,193,173
Total assets less current liabilities		13,752,465	12,909,284

NOTES:

1 General information

Sinotruk (Hong Kong) Limited (the "Company") was incorporated in Hong Kong on 31 January 2007 as a limited liability company as a result of a group reorganisation (the "Reorganisation") as detailed in section headed "History, Reorganisation and Corporate Structure" of the global offering prospectus dated 15 November 2007.

The Company together with its subsidiaries are hereinafter collectively referred to as the Group. The Group is principally engaged in the manufacturing and sales of heavy duty trucks, engines, and the provision of finance services. The address of the Company's registered office is Units 2102-2103, China Merchants Tower, Shun Tak Centre, 168-200 Connaught Road Central, Hong Kong.

Following completion of the global offering, the Company's shares were listed on the Stock Exchange of Hong Kong Limited on 28 November 2007.

2 Basis of preparation

The Group resulting from the Reorganisation referred in Note 1 above is regarded as a continuing entity. Accordingly, the unaudited condensed consolidated interim financial information, including comparative figures, have been prepared on the principle of merger accounting, as prescribed in Hong Kong Accounting Guideline 5 "Merger Accounting for Common Control Combinations" issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA"), as if the current group structure had been in existence throughout the two periods ended 30 June 2007 and 2008 presented.

This condensed consolidated interim financial information for the six months ended 30 June 2008 has been prepared in accordance with HKAS 34, 'Interim financial reporting'. This condensed consolidated interim financial information should be read in conjunction with the annual financial statements for the year ended 31 December 2007, which have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs").

3 Accounting policies

Except as described below, the accounting policies adopted are consistent with those of the annual financial statements for the year ended 31 December 2007, as described in those annual financial statements.

The following new interpretations are mandatory for the first time for the financial year beginning 1 January 2008 but are not currently relevant for the Group:

- HK(IFRIC) - Int 11, 'HKFRS 2 - Group and treasury share transactions'.
- HK(IFRIC) - Int 12, 'Service concession arrangements'
- HK(IFRIC) - Int 14, 'HKAS 19 - the limit on a defined benefit asset, minimum funding requirements and their interaction'

NOTES:

3 Accounting policies (continued)

The following new standards, amendments to standards and interpretations have been issued but are not effective for the financial year beginning 1 January 2008 and have not been early adopted:

- HK(IFRIC) - Int 13, 'Customer loyalty programmes'(1)
- HKAS 1 (amendment), 'Presentation of financial statements'(2)
- HKAS 23 (amendment), 'Borrowing costs'(2)
- HKAS 32 (amendment), 'Financial instruments: presentation', and consequential amendments to HKAS 1, 'Presentation of financial statements'(2)
- HKFRS 2 (amendment) 'Share-based payment'(2)
- HKFRS 8, 'Operating segments'(2)
- HKFRS 3 (amendment), 'Business combinations' and consequential amendments to HKAS 27, 'Consolidated and separate financial statements', HKAS 28, 'Investments in associates' and HKAS 31, 'Interests in joint ventures'(3)

Notes:

(1) Effective from the financial year beginning 1 July 2008
(2) Effective from the financial year beginning 1 January 2009
(3) Effective from the financial year beginning 1 July 2009

4 Segment information

The Group's primary reporting format is presented as business segment.

The Group's turnover represents the net value (excluding value-added tax) of trucks and engines sold, and finance and other services provided after allowances for returns and discounts.

The Group is organised into four major business segments according to the nature of products and services provided:

(i) Trucks - Manufacture and sale of trucks;

(ii) Engines - Manufacture and sale of engines;

(iii) Finance - Taking deposits from member companies, facilitating borrowings for member companies, discounting notes of member companies and providing entrusted loan and entrusted investment between member companies; and

(iv) Others - Design and research.

NOTES:

4 Segment information (continued)

The segment results for the six months ended 30 June 2008 are as follows:

	Trucks	Engines	Finance	Others	Elimination	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Turnover						
External segment revenue	15,954,401	914,418	53,038	1,947	—	16,923,804
Inter-segment revenue	52,612	2,936,829	21,865	64,686	(3,075,992)	—
Revenue	16,007,013	3,851,247	74,903	66,633	(3,075,992)	16,923,804
Operating profit/(loss) before unallocated corporate expenses	1,074,680	162,185	46,716	(6,335)	105,869	1,383,115
Unallocated corporate expenses						(138,117)
Operating profit						1,244,998
Finance income - net						47,629
Profit before income tax						1,292,627
Income tax expense						(332,837)
Profit for the period						959,790

NOTES:

4 Segment information (continued)

The segment results for the six months ended 30 June 2007 are as follows:

	Trucks	Engines	Finance	Others	Elimination	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Turnover						
External segment revenue	10,629,430	633,726	10,902	2,615	—	11,276,673
Inter-segment revenue	11,887	2,092,457	52,692	30,738	(2,187,774)	—
Revenue	10,641,317	2,726,183	63,594	33,353	(2,187,774)	11,276,673
Operating profit/(loss) before unallocated corporate expenses	963,384	380,251	22,981	(12,210)	(140,531)	1,213,875
Unallocated corporate expenses						(52,533)
Operating profit						1,161,342
Finance costs - net						(36,932)
Profit before income tax						1,124,410
Income tax expense						(423,338)
Profit for the period						701,072

NOTES:

5 Operating profit

	For the six months ended	
	30 June 2008	**30 June 2007**
	RMB'000	*RMB'000*
Inventory write-down	3,167	3,646
Loss on disposal of property, plant and equipment	18,319	563
Amortisation of land use rights	3,519	3,587
Depreciation of property, plant and equipment	177,486	114,476
Amortisation of intangible assets	1,090	901
Foreign exchange loss/(gain), net	164,684	(1,019)

6 Income tax expense

	For the six months ended	
	30 June 2008	**30 June 2007**
	RMB'000	*RMB'000*
Current income tax		
– Hong Kong profits tax	273	1,170
– PRC enterprise income tax	293,108	506,336
	293,381	507,506
Deferred income tax	39,456	(84,168)
	332,837	423,338

NOTES:

7 Earnings per share

Basic

Basic earnings per share is calculated by dividing the profit attributable to equity holders of the Company by the weighted average number of ordinary shares in issue during the period.

	For the six months ended	
	30 June 2008	**30 June 2007**
Profit attributable to equity holders of the Company (RMB'000)	767,899	549,038
Weighted average number of ordinary shares in issue (thousands)	2,275,199	1,500,000
Basic earnings per share (RMB per share)	0.34	0.37

Diluted

Diluted earnings per share equals basic earnings per share as the Company has no dilutive potential ordinary shares as at 30 June 2007 and 2008.

8 Dividends

During the six months ended 30 June 2007, one of the Group's non-wholly owned subsidiaries had paid dividends to minority shareholders of approximately RMB 1,346,000.

A dividend that related to the year ended 31 December 2007 and that amounts to HK$ 161,539,000 (approximately RMB 145,112,000) was paid in June 2008.

NOTES:

9 Trade and other receivables

	As at 30 June 2008 *RMB'000*	As at 31 December 2007 *RMB'000*
Accounts receivable	2,669,962	1,542,480
Less: Provision for impairment of accounts receivable	(22,061)	(24,585)
Accounts receivable - net	2,647,901	1,517,895
Notes receivable		
– Bank acceptance notes	6,490,796	694,281
– Commercial acceptance notes	3,600	5,641
Notes receivable - total	6,494,396	699,922
Trade receivables - net	9,142,297	2,217,817
Other receivables	368,145	146,329
Less: Provision for impairment of other receivables	(4,258)	(4,007)
Other receivables - net	363,887	142,322
Prepayments	595,106	265,511
Interest receivables	72,073	37,449
Prepaid taxes other than income tax	101,585	193,780
Trade and other receivables	10,274,948	2,856,879

The credit policy generally requires domestic customers to pay a certain amount of deposits when orders are made and settle full purchase price prior to delivery either in cash or bank notes with a tenture of usually three to six months, which represents the credit term granted to the customers who pay by bank notes. The Group also grants certain customers credit terms of not more than 90 days only when the customers are with good credit history. The majority of the Group's export sales are made through letters of credit.

NOTES:

9 Trade and other receivables (continued)

Ageing analysis of trade and notes receivables at respective balance sheet dates are as follows:

	As at 30 June 2008	As at 31 December 2007
	RMB'000	*RMB'000*
Less than 3 months	4,386,215	1,573,357
3 months to 6 months	4,758,619	654,728
6 months to 12 months	16,310	2,843
1 year to 2 years	296	9,139
2 years to 3 years	1,165	612
Over 3 years	1,753	1,723
	9,164,358	2,242,402

10 Trade and other payables

	As at 30 June 2008	As at 31 December 2007
	RMB'000	*RMB'000*
Trade and bills payables	8,566,131	5,030,493
Advances from customers	749,047	525,625
Staff welfare and salaries payable	137,418	139,597
Taxes liabilities other than income tax	268,407	22,312
Accrued expenses	278,029	219,705
Other payables	591,421	641,814
Trade and other payables	10,590,453	6,579,546

NOTES:

10 Trade and other payables (continued)

As at 30 June 2008 and 31 December 2007, the ageing analysis of the trade and bills payables were as follows:

	As at	
	30 June 2008	**31 December 2007**
	RMB'000	*RMB'000*
Less than 3 months	7,385,474	3,891,622
3 months to 6 months	1,080,430	1,035,232
6 months to 12 months	69,086	64,787
1 year to 2 years	16,183	24,416
2 years to 3 years	8,482	4,698
Over 3 years	6,476	9,738
	8,566,131	5,030,493

MANAGEMENT DISCUSSION AND ANALYSIS

The Board is pleased to present the management discussion and analysis of the Group's interim results for the six months ended 30 June 2008, which is detailed as follows:

BUSINESS REVIEW

As one of the largest heavy duty truck manufacturers in China, the Group engages in the production of heavy duty trucks together with key parts including engines, cabins, axles and gearboxes. The Group is the most integrated manufacturer with proprietary R&D and production capabilities, and continues to take the role as the leader and pioneer in the industry of heavy duty trucks in China.

I. INDUSTRIAL ANALYSIS

In 2008, China experienced natural disasters of snow-storms and earthquakes, causing significant impact to the local economy in certain areas. At the same time, the domestic economic growth was turning from rapid to over-heated, and pressure of inflation continued to grow. These have caused the heavy duty truck industry to face various unfavorable factors such as price increase in raw materials such as steel, high standing prices of diesel, slowed down in fixed asset investment brought about by austerity measures. However, the heavy duty truck market in China still maintained its rapid growth momentum of last year.

II. BUSINESS OF THE GROUP

1. Trucks segment

The Group's sales volume of heavy duty trucks was 67,694 units, representing an increase of 57.2% over the same period last year, which is higher than the industrial level. Of these, 8,498 units were export heavy duty trucks, representing an increase of 46.6% as compared with corresponding period last year. Total turnover of trucks (including parts and components) was RMB16,007 million, representing an increase of 50.4% as compared with corresponding period last year.

2. Engines segment

Sales volume of engines was 71,658 units, of which 15.4% were sold to third parties, representing an increase of 43.0% over the same period last year. Total turnover (including parts and components) was RMB3,851 million, representing an increase of 41.3% as compared with corresponding period last year.

3. Finance segment

Total revenue from financial services was RMB75 million, representing an increase of 17.8% over the same period last year.

FINANCIAL REVIEW

Turnover, gross profits and gross profit margin

For the six months ended 30 June 2008, the Group's revenue grew significantly. Its turnover amounted to RMB16,924 million, representing an increase of 50.1% over 11,277 million for the same period of last year. The increase was mainly due to the strong growth of sales of trucks. Gross profit amounted to RMB2,433 million, representing an increase of 20.4% over the same period of last year. However, gross profit margin decrease to 14.4% in this period from 17.9% in the same period in 2007, mainly due to factors such as soaring prices of raw materials like steel and increased product configuration in the first half of this year.

	Six months ended 30 June					
	2008			2007		
	RMB million					
	Sales to third parties	**Inter-segment sales**	**Subtotal**	Sales to third parties	Inter-segment sales	Subtotal
Trucks	**15,954**	**53**	**16,007**	10,629	12	10,641
Engines	**915**	**2,936**	**3,851**	634	2,092	2,726
Finance	**53**	**22**	**75**	11	53	64
Others	**2**	**65**	**67**	3	31	34
Elimination	**—**	**(3,076)**	**(3,076)**	—	(2,188)	(2,188)
Total revenue	**16,924**	**—**	**16,924**	11,277	—	11,277

Distribution costs

During the period, distribution costs of the Group increased to RMB666 million from RMB 491 million in the same period of 2007, representing an increase of 35.7%. Percentage of distribution costs to turnover decreased from 4.4% in the same period of 2007 to 3.9% in this period, representing a decrease in unit distribution costs to RMB9,833 from RMB11,392 of the same period last year or a decrease of 13.7%. The decrease was mainly due to significant increase in sales volume together with enhanced management and operational efficiency.

Administrative expenses

Administrative expenses increased to RMB436 million in this period from RMB 407 million in the same period of 2007, representing an increase of 7%. Percentage of administrative expenses to turnover decreased to 2.6% in this period from 3.6% in the same period of 2007, representing a decrease in unit administrative expenses to RMB6,435 from RMB9,451 of the same period last year or a decrease of 31.9%. The decrease was mainly due to significant increase in turnover and effective control of administrative expenses.

Finance costs

Net finance costs became an net income of RMB48 million in this period as compared with a net cost of RMB 37 million in the same period of 2007, representing an decrease of 229%. This represented a decrease in unit finance costs to -RMB704 from RMB857 of the same period last year or a decrease of 182.1%. The decrease was mainly due to the facts that the Group reduced discounting of its bank acceptance notes, optimised the loan stucture and increased financial incomes as a result of better financial management.

Income tax expense

Income tax expense was RMB333 million, representing a decrease of 21.3% as compared to RMB 423 million in the same period of 2007. The effective income tax rate of the Group decreased to 25.7% this period from 37.6% in the same period of 2007. The decrease was mainly due to that the new PRC Corporate Income Tax law has been effective since 1 January 2008 which led to an reduction of income tax rate from 33% to 25%, and the effective tax planning made by the Group.

Net profit

Net profit attributable to equity holders of the Company was RMB 768 million in this period, representing an increase of 39.9% as compared with the same period in 2007. Net profit translated into Hong Kong dollars at an exchange rate of 0.87917 (same period last year: 0.97436) amounted to HK$873 million, representing an increase of 55%. Shareholders will receive excessive amount of dividend dominated in HK$ as a result of strong RMB position against HK$.

In general, the Group's turnover increased significantly at a rate higher than the average level of the domestic industry, showing that it is one of the enterprises with the best efficiency.

BUSINESS AND SEGMENT INFORMATION

Trucks segment

During the first half of 2008, the Group, as one of the largest heavy duty truck manufacturers in China, continued to act the role as the leader and pioneer in the development of product technology and industry in the heavy duty trucks in China, and took the establishment of a "Century enterprise, create world's first grade" as its corporate target, and insisted to uphold the corporate value concept of "Create fine products with moral, and contribute to the society with fine products". Under its core corporate concept of "Scientific development, rational management, sophisticated operations, and continued efforts for the best", the Group actively coped with the unfavorable impacts caused on the corporate sales brought by natural disasters since this year, and the cost pressures on production enterprises rising from the high rising raw material prices such as steel, and by firmly capturing the favorable opportunities of industrial development. Through enhancement of internal corporate governance, faster development and application of new products and new technologies, and continuous upgrading of product quality, the Group's production continued to maintain its rapid and steady developing trend.

In the first half year, by leveraging on its own strong technological development strengths in research and collaborations with international reputable heavy duty truck component development companies, the Group made further in-depth and more outstanding technological enhancements to the product series of its own brands, and obtained significant progress in the domestic heavy duty truck sector. The Group launched new products of 08 model series. The key of its technology breakthrough was the success in the self-developed HW gearbox, which enabled the Group to completely form self-production capability and technically completeness in all key parts including truck body, frames, suspension systems, engines, gearboxes, front and rear axles, and realized technological progress under overall technical unification of the heavy duty trucks, thus becoming one of the manufacturing enterprises to have complete proprietary development, proprietary manufacturing, proprietary application of products in the domestic and overseas heavy duty truck industries. The Group's new 08 model products have realized the complete and unified technology, and the sales rate of new products with high added-values has been further enhanced in the first half year. The profitability brought to users by the advanced technological functions of HOWO and Jin Wangzi has been highly accepted by the market. The brand new generation of heavy duty trucks developed by the Group is now ready for market launch next year. Currently, the Group is able to provide 469 models of products for the choice of different demands of the users, and will continue to develop new products to satisfy market demands in future.

During the first half of 2008, the Group sold 67,694 units of heavy duty trucks, representing an increase of 57.2% over the same period last year. The Group continued to maintain and enhance its advantage in diversified markets of heavy duty truck products, with large capacity tractor trucks, dump trucks and mixer trucks continued to maintain the leading positions in the market.

During the first half of 2008, 59,196 heavy duty trucks were sold by the Group domestically, representing an increase of 58.8% over the corresponding period of last year. The Group will implement the "Establishment of a steel network" as its long-term strategic measures for close cooperation with sales and refitting enterprises, to further strengthen the setup of sales network, after-sales network systems and component systems, and commence with a series of promotions and "Affinity" service activities, so as to expand the scope of marketing service network, and promote the overall enhancement of marketing services. Currently, there are 738 sales agents in China selling our products. Of these, there are 130 4S outlets (independent outlets specialized in selling trucks and spare parts of Sinotruk and provision of after-sales services and collection of market information), and the Group has set up business relationship with 203 refitting enterprises in China. There are also 844 maintenance and repair service stations providing excellent quality after-sales services for our products. The Group has set up a nationwide modern marketing service system with reasonable allocations and operating with high efficiency, providing effective supports and important guarantee for the realization of the Group's sustainable development.

During the first half of 2008, 8,498 heavy duty trucks were exported by the Group, representing an increase of 46.6% over the same period of last year. The Group continued to increase its outreach efforts in exploring overseas markets, expanding export scale and export market, and continued to enhance the grade and technological level of exported products, and further strengthened its brand name establishment and upgraded after-sales service network. Currently, the Group has formed five major overseas markets in the Commonwealth of Independent States (CIS), Middle East, Africa, Southeast Asia, South Africa, and South America, entered into sales agreements with over 20 overseas sales agents, and exporting products to over 50 countries, the Group has set up over 400 marketing service network points overseas.

Engines segment

Among the heavy duty truck manufacturers in China, the Group is one of the few manufacturers to own the production capacity of heavy duty truck engines at the same time. Currently, the engines produced by the Group not only can satisfy the internal needs of the Group, but also can be supplied to third parties. During the first half of 2008, sales of engines have reached 71,658 units, of which 84.6% are engines for internal use. As at the end of the year, the annual production capacity of the Group's Hangzhou engine production base and Zhangqiu engine production base may reach 200,000 units through technical renovations and upgrading.

During May 2008, the EGR WD615 China III diesel engine in which the Group has invested nearly RMB100 million in development, has been tested by the automobile inspection authority in China and confirmed to satisfy China III emission requirements, getting approved for sale by the NDRC and the Ministry of Environmental Protection of the PRC, whereby the Group has become the only truck enterprise to be equipped with electronically controlled EGR engines. The newly developed EGR engines, with its characteristics of outstanding economic effect of fuel and remarkable energy saving, good oil suitability, convenience in repair and maintenance, and significantly reducing the running costs of users, have also had its production costs lower than high pressure common rail engines, and the selling price of trucks equipped with such engines is more competitive. The Group shall win market opportunities by leveraging on the various advantages of EGR engines in respect of costs.

Currently, the Group owns two types of China III engines, including the electronically controlled EGR engines and electronically controlled high pressure common rail engines researched and developed successfully and sold in large volume in 2006, which can satisfy the requirements of different markets and customers.

With the continued development of the technological level in the international heavy duty trucks, the trend of centralized control in the power system of heavy duty trucks (including engine, clutch, gearbox, propeller shaft and braking system) is becoming more and more significant, and the functions, communication and control of various key parts in power system are required to be more compatible. Accordingly, there are more intense relationships between the functions of the key gearbox and the truck. The first generation HW gearboxes developed by the Group have all realized self-production. The gearboxes have same advantages as those of international advanced products, full considerations have been made to domestic running environments and actual process level, and have the characteristics of advanced structure, high reliability and good process functions. The product design has the space for expansions to higher level, and has attained the advanced level in the similar products in China. Currently, our self-production capacity has yet unable to fully satisfy the needs for the Company's truck assembly, and some have still to be purchased externally.

Besides production of heavy duty trucks, engines, gearboxes, the Group also produces key parts such as axles, cabins, truck frames and other spare parts for trucks. With the annual increase in the number of the Group's products available in the market, the Group has commenced to industrialize its spare parts, besides satisfying the needs of its own truck assembly, the spare parts are also sold to the public through the Group's spare parts sales department. The Group's original spare parts are available for users at spare parts special centers in various places, which can satisfy the substantial demands for spare parts in truck repair. This can not only guarantee the normal use of the trucks by users, but can also bring new profit growth point to the Group. In the first half year, the Group continued to expedite the construction of spare parts network in China, and currently there are 789 spare parts outlets selling the Group's spare parts.

In recent years, with the continuing rapid increase in the demands for the Group's products, there is a significant shortfall in the Group's production capacity to satisfy market demands during the peak season of sales every year. Although the Group increases its capacity every year, the orders received by the Group in the peak seasons of March and April this year were far more than our expectation to the market. Though the accumulated orders received during the peak season of sales in March and April this year reached 15 thousand trucks, making the new record of largest order per month, the Group's production can only satisfy less than 50% of the orders. The loss of substantial orders has affected the enhancement of the Company's market shares in the first half year. While expanding production capacity, the Group will also consider and balance the relationship between the utilization rate after the capacity expansion and industrial development, market demands, so as to not only guarantee the market demands for the Group's products, but can also realize the maximized utilization of the Group's capacity and resources. In order to release the bottleneck of capacity, the Group enhanced the production capacity of the key parts and spare parts processing to guarantee the production of trucks in the peak season next year. On the other hand, the Group enhanced construction of network improvements, and identify domestic refitting enterprises in key districts having the capabilities for partnership, so as to enhance the Group's refitting capability in key districts by various ways of cooperation to push up sales in the surrounding areas. In the first half year, Liuzhou Yunli Special Vehicle Co., Ltd., which the Group newly acquired, has commenced operation. This action will considerably enhance the Group's refitting capability in the south-western region, as well as enhancing the market share of the Group's products in this region. In addition, contracts with other refitting enterprises are still under negotiations.

Finance segment

During the first half of 2008, the Group's external revenue from financial services increased by RMB42 million or 386% from 11 million in the same period of last year, to RMB53 million.

Other segment

The Group's technical center, as a heavy duty truck research and development institution of national level, is in the leading position in terms of new product design and development, research and development of key parts and components, and leads in heavy duty truck research project in the National 863 Project assigned by the China Government.

PROSPECTS AND OUTLOOK

In the first half year, various sectors in the society have indicated worries on the excessive impact of the tight macro control policy on the economy. However, the China Government will adopt measures to prevent significant fluctuations in the economy, and the trend of China's economy maintaining its dynamic and steady development will not change. China's supports to the industry and increased market demands continued to provide strong supports to the growth of the heavy duty truck industry.

We are of the opinion that the implementation of the China III emission standards and the price hike in the whole industry resulting from the rise in raw material prices will have certain impact to the market in the short-term, and it will take time to be digested and absorbed by the market. In July, there was a temporary rebound in market demands, while in August there was a trend of improvement, and in the aftermath of natural disasters after September the supply of coal, power, and transportation will still remain tight. With the government's commencement of reconstruction and the slowing down of macro economic control, it is expected that the heavy duty truck market will pick up the upward trend.

In the second half year, the Group will capture favorable opportunities of industrial development to launch the marketing of the Group's China III standard products. Leverage on the advantages of the Group's electronically controlled EGR engines in terms of price and fuel saving, it is believed that the Group's products will set to occupy the leading position in the market.

We shall enhance the production capacity of trucks of the Group through investment in productive capacity for the cast, enhanced production capacity of parts and components and technoligical improvement. We shall continue with our technological development of new products, and continue to enhance product quality and functions, so as to maintain the Group's technology leading position and product leading advantage in the domestic heavy duty truck industry.

In view of the present situation of high price of raw materials, the Group will reduce purchase and production cost and enhance the profitability of the enterprise through measures such as central purchase of raw material, exploration of internal potentials together with energy saving and reduced consumption.

We shall promote the implementation of our internationalization strategy, strengthen construction of overseas marketing network, and on the basis of consolidating the traditional markets, continue to explore potential markets, so as to expand exports of the Group's products, and establish the Group's image as an international brand.

While achieving further growth in the Group's production and sales and market shares, we shall put more stress on further enhancement of efficiency of the enterprise and the trends of long-term development, cultivate core competitiveness and sustainable development capabilities of the enterprise, and to lay down a solid foundation to build a "Century Sinotruk" brand.

DIVIDENDS

The Board does not propose interim dividends for the six months ended 30 June 2008.

Liquidity and financial resources

As at the end of the first half of 2008, the Group had cash and cash equivalent of RMB5,953 million and bank acceptance notes of RMB 6,491 million, totaling RMB 12,444 million. The Group's total banking facilities was RMB 13,412 million, of which the Group had drawn RMB6,268 million. The Group's total borrowings as at the end of the period (including long-term and short-term borrowings) were RMB5,418 million while the remainder were notes payables. Gearing ratio was 18.6% (calculated by dividing total borrowings by total assets). 97% of the borrowings were denominated in RMB and the remainings were denominated in Hong Kong and United States dollars. Most of the borrowings borne floating interests which were lower than the standard quoted rates and were repayable within one year.

Financial management and policy

The Group's finance department is responsible for financial risk management. One of our key financial policies is to manage exchange rate risk. Our financial policy prohibited the Group from participating any speculative activities. By the end of the period under review, except for bank deposits equivalent to RMB1,005 million denominated in foreign currencies and certain foreign currency receivables, most of the Group's assets and liabilities were denominated in RMB.

In order to mitigate exchange rate risk, the Group's policy is to convert Hong Kong dollar assets into RMB assets as soon as possible and hence substantially reduce any potential loss resulting from RMB appreciation. As at the end of the period under review, based on a review and assessment of its foreign exchange exposures, the Group did not make any hedging against foreign exchange risk. As at 30 June 2008, an aggregate of HK$8,445 million has been remitted to the subsidiaries in China and were converted into RMB. The management continues to convert the remaining amount into RMB. During period under review, the Group recorded exchange losses of not less than RMB128 million from Hong Kong dollar denominated funds raised from initial public offering.

The management believes the continuing appreciation of RMB against other currencies is favourable to its overseas shareholders, as the Company's dividend is mainly dependent on the profits from the subsidiaries operated in PRC. Net profit after minority interest when translated into Hong Kong dollars at an exchange rate of 0.87917 (same period last year: 0.97436) amounted to HK$873 million, representing an increase of 53.1%. The strong RMB position against HK$ will allow excessive dividend payout which is dominated in HK$.

Acquisition

During the first half of 2008, the Company increased its investment in Sinotruk Finance Company Limited (中國重汽財務有限公司) ("Sinotruk Finance") and acquired equity interest in Liuzhou Yunli Special Vehicle Co, Ltd. (柳州運力專用汽車有限公司) ("Liuzhou YunLi") respectively.

The Company had acquired 4.7% equity interest in Sinotruk Finance from its independent shareholders at the consideration of RMB23.2 million. The Company has fully paid such amount. In addition, the Company has paid RMB500 million for subscription of new equity interest in Sinotruk Finance. The additional interest in Sinotruk Finance by subscription of new shares will be calculated based on the audited asset value of Sinotruk Finance as at 31 December 2007. Currently, the acquisition of 4.7% equity interest and the subscription of new shares have been approved by the Banking Regulatory Bureau of Shandong Province, but is subject to the final approval from other related government agents, and the relevant formalities of the share transfer and share subscriptions are under process.

In May 2008, the Company's wholly-owned subsidiary, Sinotruk Jinan Power Co., Ltd. (中國重汽濟南動力有限公司)("Jinan Power") made capital contribution in Liuzhou YunLi Special Vehicle Co., Ltd. ("Liuzhou YunLi") by cash at RMB49 million. Upon the capital injection, Liuzhou YunLi was held as to 60% by Jinan Power, and as to 40%, the original shareholder of Linzhou YunLi, Liuzhou YunLi Assets Investment Co., Ltd.(柳州運力資產投資有限公司). Liuzhou YunLi was subsequently renamed as Sinotruck Liuzhou YunLi Special Vehicle Co., Ltd. (中國重汽集團柳州運力專用汽車有限公司).

Contingent liabilities, legal proceedings and potential litigation

In 2008, the Group implemented a Group-wide general legal advisor system to strengthen management of litigation and enhance prevention capacity of legal risks, providing a legal protection for the sustainable growth of the Group. In 2008, the Group was not involved in any litigation, arbitration or administrative proceedings that could have a material adverse effect on its financial condition and results of operations during the period under review. As at 30 June 2008, the Group estimated that the total amount of all claims was approximately RMB14.1 million. The total provision for legal claims was RMB2.4 million. As the Group has already made full provisions for claims subject to high risk of loss, there was no other material contingent liability with respect to legal claims.

Significant post balance sheet events

After the balance sheet date, the Group had no events that would have material influence on the Company and its subsidiaries.

Human resources

As at 30 June 2008, the Group had a total of 13,576 employees. With implementation of the "Production, University, Research Institute" project, the Group had cooperated with certain key universities and research institutes, and had established a post-doctorate working station aiming to train high caliber innovative expertise. Employees' remuneration was determined based on the nature of job, personal performance and market trends. Results appraisals were made regularly on the performance of employees, so as to determine their remuneration and discretion bonus.

Review of interim results

This unaudited condensed financial information of the Group has been reviewed by the Audit Committee of the Company and by PricewaterhouseCoopers, the auditor of the Company, in accordance with Hong Kong Standard on Review Engagements 2410, "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the Hong Kong Institute of Certified Public Accountants.

Corporate governance practice

The Company has been in compliance with the Code on Corporate Governance Practices as set out in Appendix 14 to the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules").

Directors' securities transactions

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "Code") as set out in Appendix 10 to the Listing Rules as the code of conduct for securities transactions by the directors of the Company (the "Directors"). After making specific enquiries with all Directors, the Company confirmed that all Directors have complied with the standards required by the Code during the first half of 2008.

Purchase, Sale or Redemption of Shares

Neither the Company nor any of its subsidiaries purchased, sold or redeemed any listed securities of the Company during the first half of 2008.

By order of the Board
Sinotruk (Hong Kong) Limited
Ma Chunji
Chairman

Beijing, the PRC 27 August 2008

As at the date of this announcement, the executive directors of the Company are Mr. Ma Chunji, Mr. Cai Dong, Mr. Wang Haotao, Mr. Wei Zhihai, Mr. Wang Guangxi, Mr. Tong Jingen and Mr. Wang Shanpo; and the independent non-executive directors of the Company are Mr. Shao Qihui, Mr. Lin Zhijun, Mr. Ouyang Minggao, Mr. Hu Zhenghuan, Mr. Chen Zheng and Mr. Li Xianyun.