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

Annual Report 2007

Every Step Counts for Success


HOWO

Contents

Corporate Information

DIRECTORS

Executive Directors:

Ma Chunji
(Chairman)
Cai Dong (President)
Wang Haotao (Vice President)
Wei Zhihai (Vice President)
Wang Guangxi (Vice President)
Tong Jingen (chief economist)
Wang Shanpo (chief engineer)

Independent Non-executive Directors:

Shao Qihui
Lin Zhijun
Ouyang Minggao
Hu Zhenghuan
Chen Zheng
Li Xianyun

COMPANY SECRETARIES AND AUTHORIZED REPRESENTATIVES

Tong Jingen
Kwok Ka Yiu

QUALIFIED ACCOUNTANT

Kwok Ka Yiu

REGISTERED OFFICE

Units 2102-2103
China Merchants Tower
Shun Tak Centre
168-200 Connaught Road Central
Hong Kong

PRINCIPAL PLACE OF BUSINESS IN CHINA

165 Yingxiongshan Road
Jinan, Shandong Province
China 250002

STRATEGY AND INVESTMENT COMMITTEE

Ma Chunji
Cai Dong
Shao Qihui
Ouyang Minggao
Hu Zhenghuan
Wang Haotao
Wang Shanpo

REMUNERATION COMMITTEE

Chen Zheng
Lin Zhijun
Li Xianyun
Wei Zhihai
Tong Jingen

AUDIT COMMITTEE

Lin Zhijun
Ouyang Minggao
Chen Zheng
Wang Guangxi
Tong Jingen

LEGAL ADVISORS

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

PRC
DeHeng Law Offices
12/F, Tower B, Focus Place
No. 19 Finance Street
Beijing, The PRC

Corporate Information

AUDITOR

PricewaterhouseCoopers
22nd Floor, Prince's Building
Central, Hong Kong

PRINCIPAL BANKERS

Agricultural Bank of China
Jinan Branch, Huaiyin Sub-branch
No. 138 Jingxi Road
Jinan, Shandong Province
The PRC

Bank of China
Jinan Branch
No. 22 Liyuan Street
Jinan, Shandong Province
The PRC

China Construction Bank
Jinan Branch, Tianqiao Sub-branch
No. 125 Ji Luo Road
Jinan, Shandong Province
The PRC

Industrial and Commercial Bank of China
Jinan Branch, Tianqiao Sub-branch
7 Dongxidanfeng Street
Tianqiao District
Jinan, Shandong Province
The PRC

COMPLIANCE ADVISORS

China International Capital Corporation (Hong Kong) Limited
29th Floor
One International Finance Centre
1 Harbour View Street
Central, Hong Kong

J.P. Morgan Securities (Asia Pacific) Limited
27th Floor, Chater House
8 Connaught Road Central
Central, Hong Kong

SHARE REGISTRAR

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

COMPANY WEBSITE

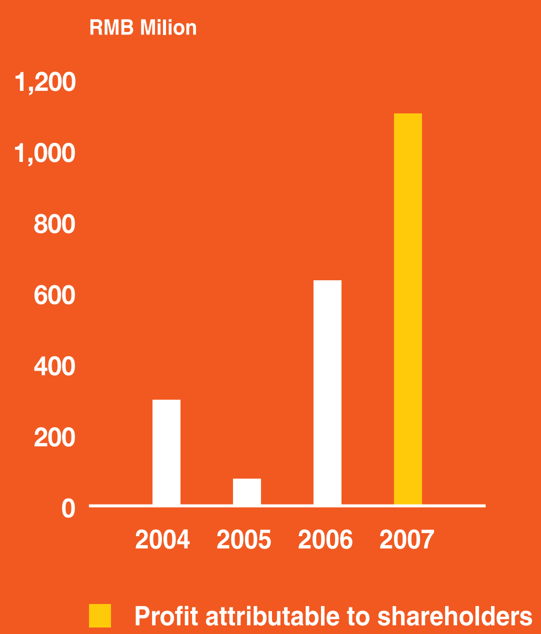
www.sinotruk.com

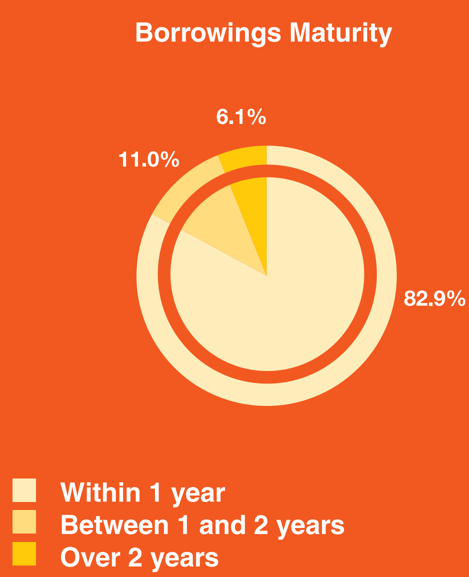
SHARE INFORMATION

Stock code	3808
Stock name	Sinotruk
Number of issued shares	2,275,199,000 ordinary shares
Board lot size	500 shares
Investors relations	Securities Department Hong Kong: Tel (852) 3102 3808 Fax (852) 3102 3212 China: Tel (86) 531 8866 3808 Fax (86) 531 8558 2545 Email: info@sinotrukhk.com

Financial Summary

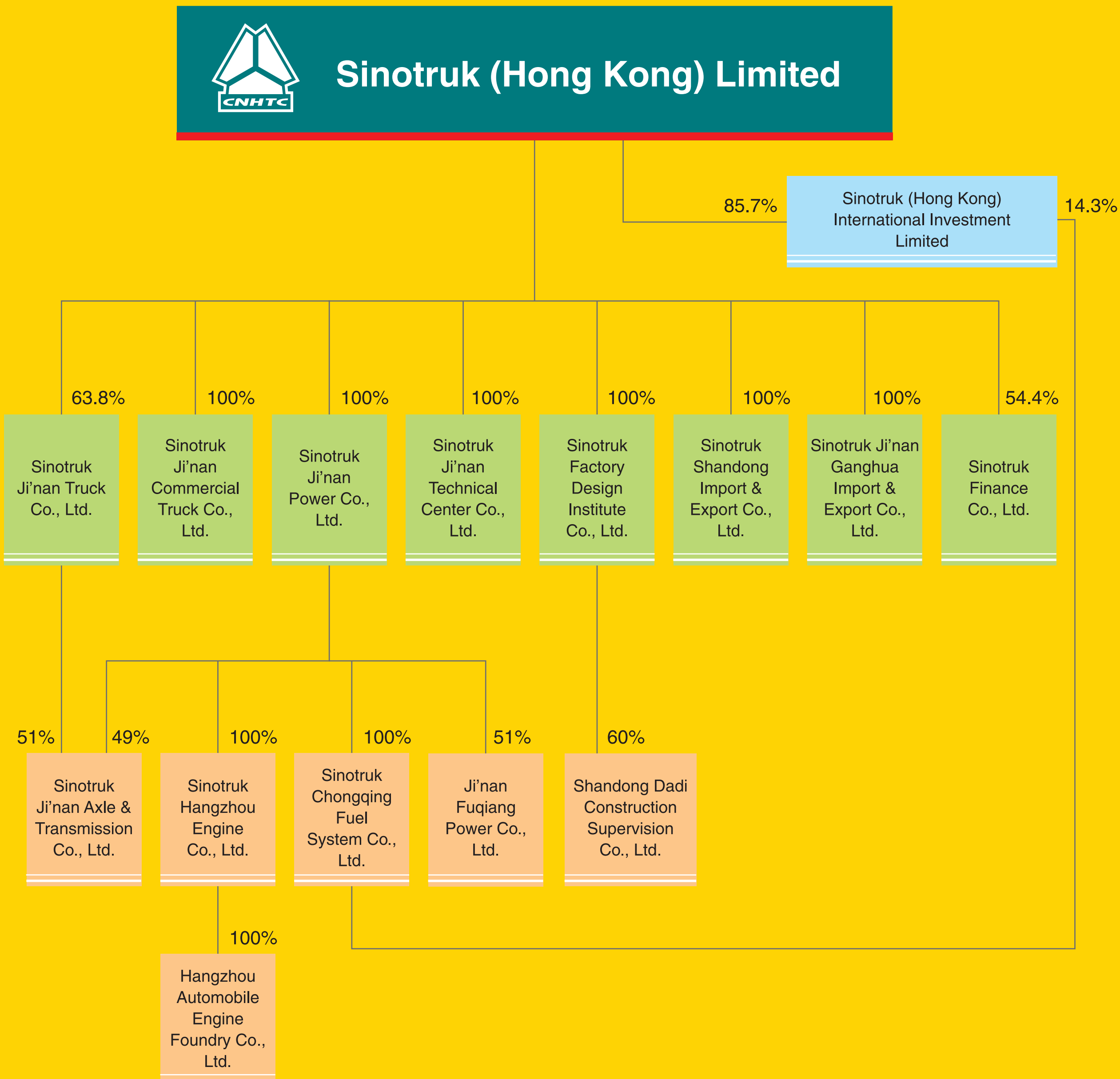
	Group	
	2007 RMB Million	2006 RMB Million
TURNOVER		
Trucks	20,049.4	11,982.6
Engines	1,232.8	731.6
Finance	13.4	50.3
Others	1.8	3.0
	21,297.4	12,767.5



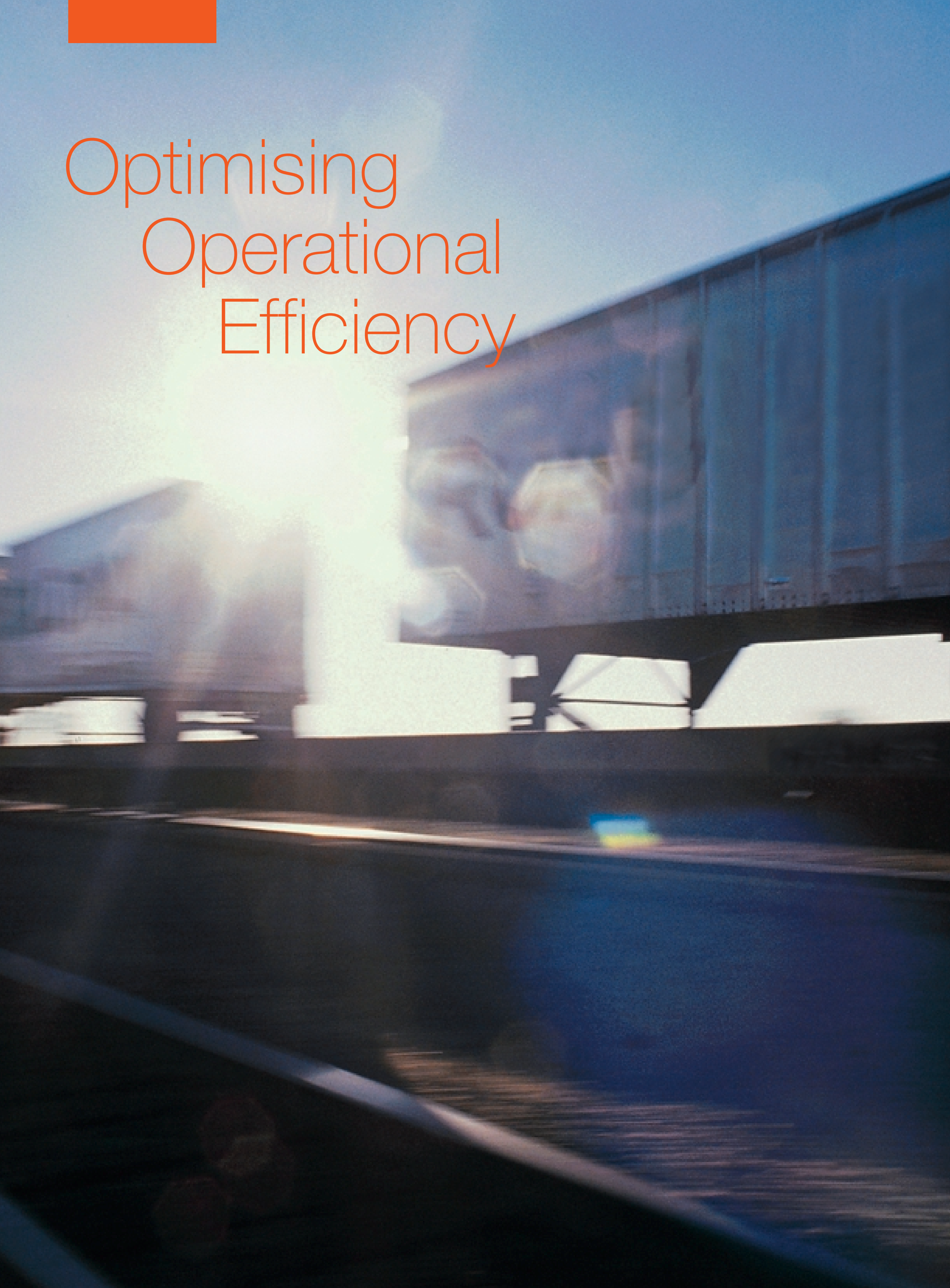


Organization Structure

As at 31 December 2007



Optimising Operational Efficiency



Chairman's Report

Ma Chunji
Chairman

Dear Shareholders,

We listed on The Stock Exchange of Hong Kong Limited on 28 November 2007, which allowed us to gain access to the international capital markets and pave the way for further developments in the future. The Company will leverage its listing status to further enhance its core competitive strengths and put its operations in shape, with an aim of becoming a renowned and solid player in both the domestic and international markets for heavy duty trucks.

REVIEW

The Company specializes in the development and production of heavy duty trucks and their key parts and components, including engines, cabins, axles, truck frames and gearbox. Its mainstay products include four series of models: HOWO, Sitaier King, Sitaier and Huanghe. In 2007, Sinotruk (Hong Kong) Limited ("Sinotruk" or the "Company"), together with its parent company, China National Heavy Duty Truck Group Co., Ltd ("CNHTC"), is the largest heavy duty truck manufacturer in China. According to China Association Of Automobile Manufacturers ("CAAM")（中國汽車工業協會）, the Company and its parent company, CNHTC, together own a 20.8% market share for heavy duty trucks in terms of sales volume and ranked top five among heavy duty truck manufacturers in the world. It helped present a new image of the country's automotive industry to the global heavy duty truck market.

In 2007, China's economy maintained its strong growth momentum, with fixed-asset investment recording a significant increase. During the year, the country fully implemented the measures of charging toll road fees based on the weight of the load carried. These factors led to a rapid growth in the country's heavy duty truck market. According to CAAM, 487,481 heavy duty trucks of 14 tons and above (including semi-finished heavy duty trucks) were sold in 2007, which was 59% more than in 2006. The Company continued to record fast growth in its results as well as a higher-than-industry-average growth due to continued efforts in scientific development, rational management, sophisticated operations, and continued efforts to the best. In the year under review, the Company sold 84,481 heavy duty trucks, an increase of 32,908 units over 2006. In particular, exports increased by 167.8% to 15,715 units. Turnover rose 66.8% to RMB21,297.4 million, and net profit grew by 78.0% to RMB1,388.0 million. The growth rate of net profit exceeded that of sales volume as a result of improving operating performance and economies of scale.

In the year under review, the Company continued to improve its corporate governance by adopting a number of measures. For instance, it appointed famous professionals as independent non-executive Directors to the board with an aim of forming an independent, diverse and professional board that can better represent the interest of shareholders, especially minority shareholders. It also hired a well-known consultancy firm to help improve internal control systems to better manage business risks and to ensure the accuracy and timeliness of financial and operating information. Meanwhile, it established investor relations teams in Hong Kong and Jinan as a platform to maintain good communications with investors.

ACQUISITION AND BUSINESS CONSOLIDATION

Pursuant to the announcement of the Company dated 14 December 2007, the Company's wholly-owned subsidiary, Sinotruk Jinan Power Co., Ltd. acquired the gearbox manufacturing business (the "Acquisition") from CNHTC. The acquisiton has been completed at a net acquisition cost of RMB153.2 million. As a result, the Company now has the ability to manufacture most of the key parts and components of heavy duty trucks including engines, cabins, axles, truck frames and gearbox. The Acquisition enhanced the Company's core competitive strengths by extending and improving the Company's production chain, and reducing the risks associated with reliance on other suppliers. This should help ensure product quality. The move also helped to lower the production cost, which should thus help enhance profitability. Additionally, the Company's potential connected transactions with the parent company will be reduced to enhance independence.

DIVIDEND

The Company attaches great importance to the interests of shareholders. In view of the Company's stable financial performance and good financial position, as well as the optimistic anticipation of the sustained development of the Company, the board (the "Board") of directors (the "Director") of the Company recommended a final dividend of HK$0.071 per share for the financial year ended 31 December 2007. The Company will continue to work hard to improve returns for shareholders.

PROSPECTS

To predict the trends in the automotive market in 2008, we believe the following factors will influence the development of the heavy duty truck market: First, 2008 will be a year of fast national economic development which will be marked by the Olympic Games and execution of development plans of the 17th National Congress of the Communist Party of China as well as the first year of the newly-elected government. Implementation of a number of key national projects, such as the West-East China Gas Project, Revival of Industries in Northeast China and the Establishment of Key Energy Bases will drive the demand for heavy duty trucks. Second, the state's efforts to change the mode of economic development, with an emphasis on innovation, will stimulate demand for advanced heavy duty trucks and models with large power and for special purposes. This will bring opportunities to the Company. Third, the country is implementing measures to charge toll road fees based on the weight of the load carried. This coupled with the replacement of worn-out trucks will lead to the adjustment of product mix. These developments will boost demand for heavy duty trucks of large tonnage. Fourth, the country will continue to carry out the strategy of encouraging entitled enterprises to actively involve in the competition of the global heavy duty truck industry. Thus, the export of trucks will increase. In consideration of all the factors mentioned above, the Company will continue its efforts to raise itself to high international standards in terms of products, technology, market operation, operating systems and management. This includes reinforcing and enhancing its leading market position and forging itself to be a global enterprise. We strive to develop the country's automotive industry, create a renowned global brand and make the Company a top international enterprise.

From 1 July 2008, the government will impose the China III emission standards on commercial vehicles in the country, which brings opportunities and challenges to heavy duty truck manufacturers. In anticipation of these standards, the Company has taken numerous measures in terms of technology, product, production, sales and after-sales service to be well prepared for the smooth shift from China II to China III emission standards. The Company plans to leverage its technology and strength in controlling costs across multiple technical channels. In fact, the Company has already developed and introduced heavy duty trucks installed with its proprietary engines that meet China III emission standards to both domestic and overseas markets. The products have been well received by customers. By now, the Company can provide 431 products that adhere to China III emission standards to accommodate to various needs of customers, and the Company plans to introduce more. The implementation of China III emission standards will increase the purchase price of trucks, but management believes that market demand will only be affected slightly since heavy duty trucks are the primary transportation tools in China. Furthermore, it helps the Company to reinforce and increase its market share. Since China III standards are similar to Euro III Standards, the Company's compliance with China III standards should help in meeting the international standards and in facilitating exports.

In 2008, the Company will conduct its business in strict compliance with the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limtied and the relevant regulations to maintain its sustained development and to protect the interests of shareholders. Meanwhile, it will continue to enhance its internal control system to effectively avoid risks associated with capital and operations and take initiatives in development. The Company will push ahead with reforms of the management system to raise operational efficiencies and management's capability for strategic execution. It will further consolidate resources in finance, marketing and sales and human resources, and continuously optimize the structure of resources, and expand marketing and sales channels to improve operational efficiency. Furthermore, the Company will keep building the information system to facilitate the modernization of management.

The Company believes in its social responsibility to build a harmonious society. The Company is currently carrying out a campaign to save energy, reduce emissions, and improve efficiency so as to help it achieve sustainable development. It will conduct research and explore the applications of scientific and sustained development in the automotive industry with an emphasis on the development and applications of energy-saving, environmentally friendly and safe products. In the process of innovation and the development of technology, the Company will keep looking for and exploring new opportunities and market potential to realize its shift from extensive to intensive development.

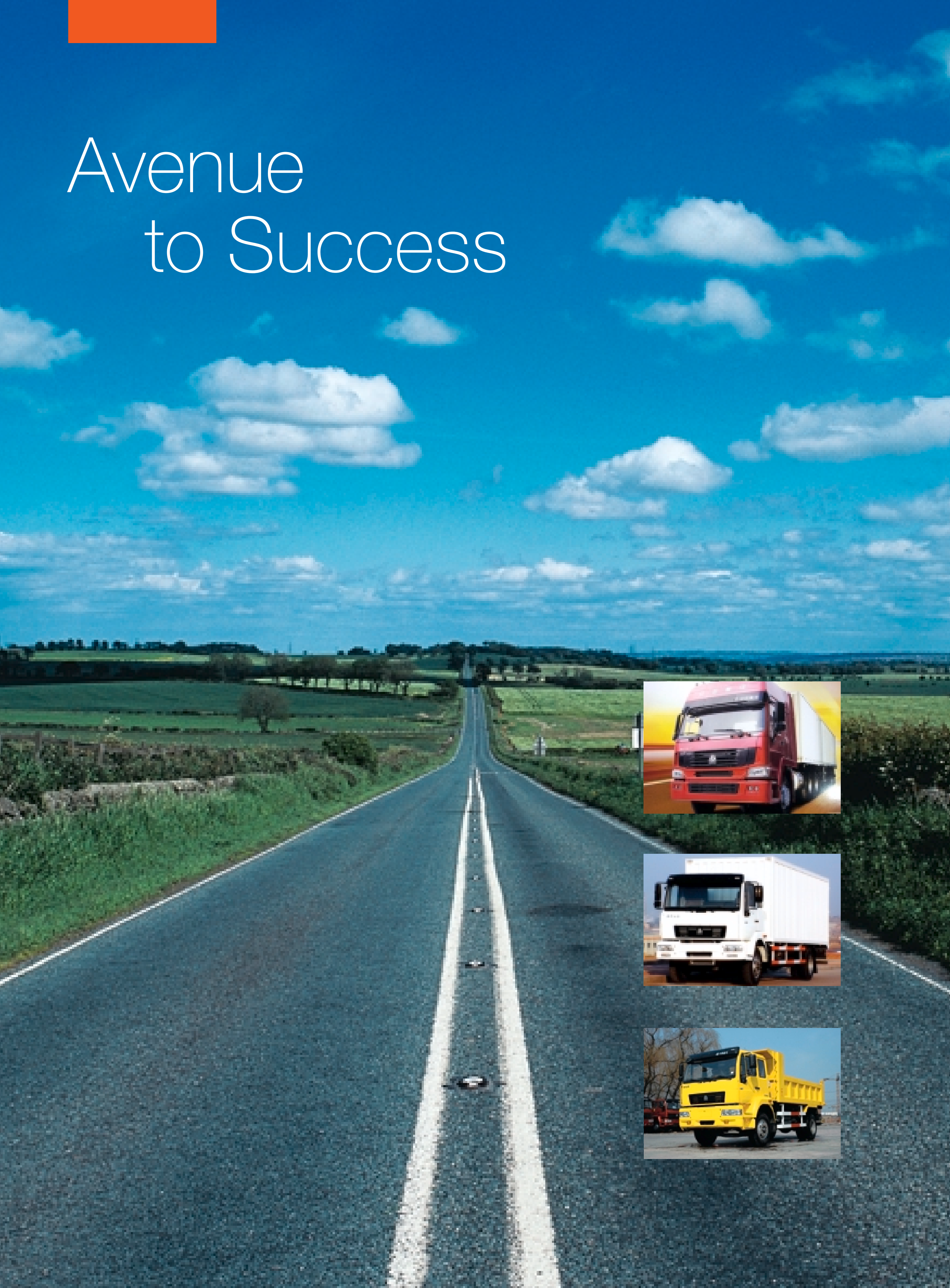
APPRECIATION

On behalf of the Board, I would like to express our gratitude to shareholders for their support and trust. I would also like to thank the management and staff for their contribution and hard work over the last year.

Chairman

Beijing, 18 April 2008

Avenue
to Success



Management Discussion and Analysis

FINANCIAL REVIEW

Turnover, gross profit and gross profit margin

The Company and its subsidiaries (the "Group") saw significant growth in the year ended 31 December 2007. With strong growth in truck sales, turnover of the Group rose by RMB 8,529.9 million or 66.8%, to RMB 21,297.4 million in 2007 (2006: RMB 12,767.5 million). Gross profit rose by RMB 1,664.6 million or 74.4%, to RMB 3,902.5 million (2006: RMB 2,237.9 million). Gross profit margin was increased to 18.3% (2006: 17.5%). The increase in gross profit and gross profit margin reflected the shift of focus to high-end trucks and exports in the sales mix which are normally at higher margin.

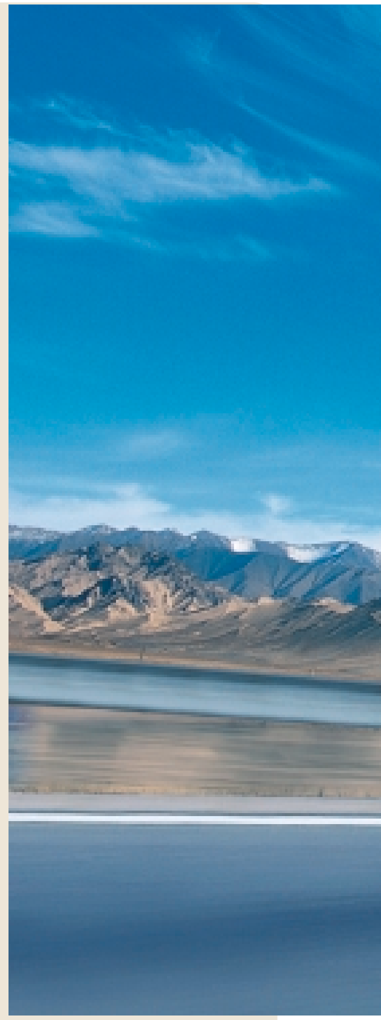
	For the year ended 31 December					
	2007			2006		
	RMB million					
	Sales to third parties	**inter-segment sales**	**subtotal**	Sales to third parties	inter-segment sales	subtotal
Segment						
Trucks	20,049.4	109.3	20,158.7	11,982.6	68.4	12,051.0
Engines	1,232.8	4,094.5	5,327.3	731.6	2,382.7	3,114.3
Finance	13.4	88.6	102.0	50.3	94.1	144.4
Others	1.8	57.7	59.5	3.0	46.6	49.6
Elimination	–	(4,350.1)	(4,350.1)	–	(2,591.8)	(2,591.8)
Total turnover	21,297.4	–	21,297.4	12,767.5	–	12,767.5

Distribution costs

Distribution costs increased by RMB 491.5 million or 75.6% from RMB 649.9 million in 2006 to RMB 1,141.4 million in 2007. The increase was attributable to (i) growth in sales and exports, the rise in fuel prices, and in particular, growth in exports to Russia that incurred higher transportation and storage costs; (ii) higher warranty expenses as a result of sales growth; and (iii) an increase in commission paid to distributors, together with packing fees and other expenses related to sales.

Administrative expenses

Administrative expenses increased by RMB 167.5 million or 26.2% to RMB 806.2 million in 2007, compared with RMB 638.7 million in 2006. The increase was mainly due to business expansion and the shift to international standards, leading to an increase in salaries, welfare and travel and other expenses for administrative and managerial staff.



Other (losses)/gains-net

Other net losses were RMB 18.1 million in 2007, against other net gains of RMB372.6 million in 2006. The reasons of the changes from net gains in 2006 to net losses in 2007 were i) in 2007, no recurrence of an one-off gain of RMB301.2 million from the settlement of medical insurance plans in 2006, ii) significant drop of net gains from sales of by-products by RMB 93.6 million, iii) increase of exchange losses resulted from fluctuation of RMB to other foreign currencies by RMB 51.1 million and iv) loss on disposal of property, plant and equipment reduced by RMB 49.8 million.

Finance costs

For the year ended 31 December 2007, net finance costs were RMB 48.1 million, decreased by RMB 87.1 million or 64.4%, compared with RMB 135.2 million in 2006. The decrease in net finance costs was due to facts that the Group i) reduced its bill discounting business which reduced interest expenses and ii) interest income resulted from deposits of proceeds from initial public offerings.

Income tax

Income tax was RMB 500.8 million in 2007 and, compared to RMB 406.8 million in 2006, it was increased by RMB 94.0 million or 23.1%. The increase was due to growth in the Group's taxable income. In 2007, the effective corporate income tax rate applied to the Group was about 26.5%, compared with 34.3% in 2006.

Profit for the year and earnings per share

Profit for the year ended 31 December 2007 increased from RMB 779.9 million in 2006 to RMB 1,388.0 million, an increase of RMB 608.1 million or 78.0%. Earnings per share for profit attributable to the equity holders of the Company in 2007 increased by RMB 0.28 or 65.1% from RMB 0.43 in 2006 to RMB 0.71.

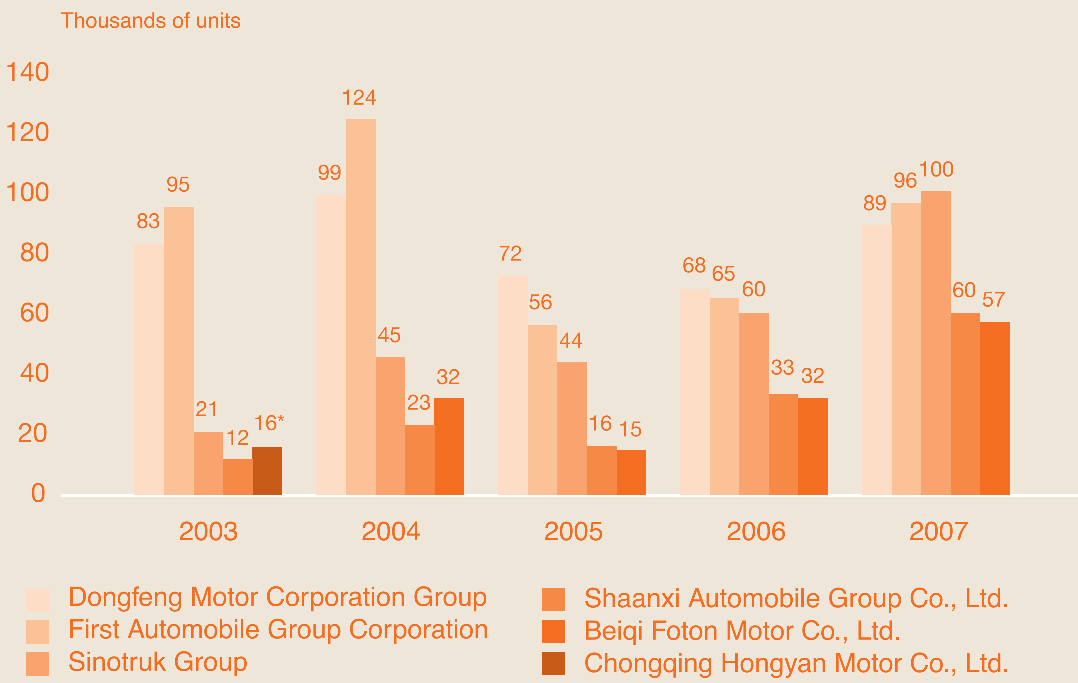
BUSINESS REVIEW

Trucks:

Industry Overview

In 2007, China continued its rapid growth in economy as reflected by the increasing investments in infrastructures. The strong economic growth, together with the introduction of a new road toll system which is based on the weight of loads carried, led to rapid growth in the domestic market for heavy duty trucks. According to CAAM, 487,481 heavy duty trucks of 14 tons or more (including semi-finished heavy duty trucks) were sold in 2007, which is 59% more than total sales in 2006. The Group continues its philosophy of achieving sustainable growth and pursuing best performance by setting a realistic target and well-organised operations. It achieved sales above the industry average by taking advantage of its brand name, advanced technologies, high product quality and efficient marketing and after-sales network. According to CAAM, the Group and its parent company had a combined 20.8% share of the heavy duty truck market in 2007 and become the largest heavy duty truck manufacturer in China.

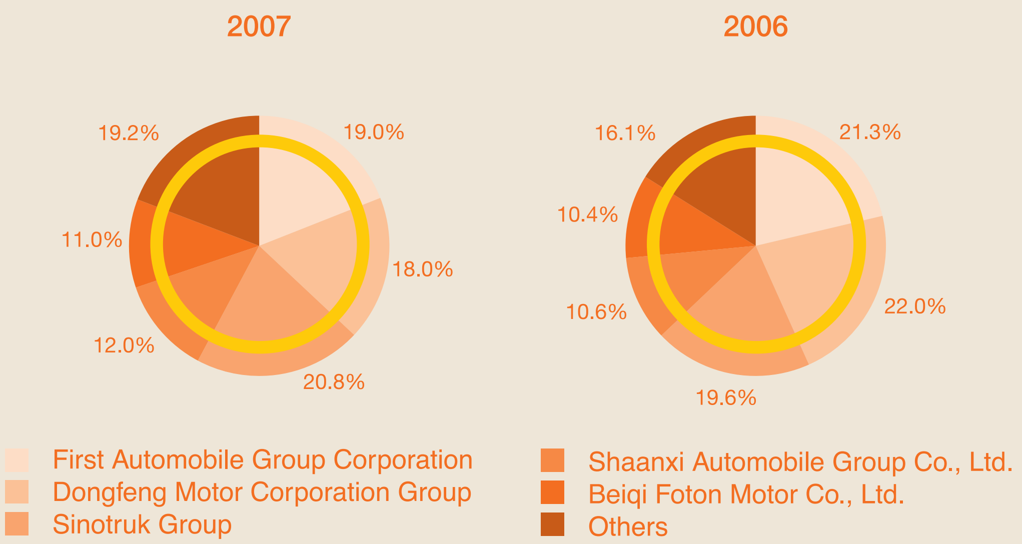
Sales Volume of Top Five Heavy Duty Truck Manufacturers in China



Source: "China Automotive Industry Production and Sales News," First Edition, 2008

* In 2003, Chongqing Hongyan Motor Co. Ltd. was ranked fifth among China's heavy duty truck manufacturers. In 2004, Beiqi Foton Motor Co., Ltd. took its place to become one of the top five manufacturers.

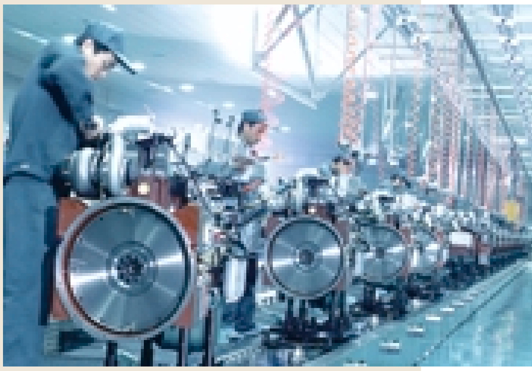
Market Share of Major Manufacturers of Heavy Duty Trucks in China



Source: "China Automotive Industry Production and Sales News," First Edition, 2008

From 1 July 2008, the emission system of China commercial vehicle will have to comply with China III emission standard. To heavy duty truck manufacturing companies, it is not only a challenge but also is an opportunity. The Group has well prepared to move from China II emission standard to the China III emission standard in various aspects such as technology, product, production, sales and after-sales service. It has also developed various proprietary technologies that enable it to enjoy technologies and cost advantages as well as to ensure to shift the production from China II mission standard to China III emission standard smoothly. In fact, the Group has already developed and been selling heavy duty trucks equipped with China III emission standard engines and other components and these China III emission standard trucks have high reputation in the market. Now the Group has 431 China III emission standard products to meet different users' requirements. The Group continues to develop more and more new products. The costs increased from implementation of China III emission standard will be borne by customers. The demand for heavy duty truck, being one of key components in the transport industry, may not be significantly affected. The Group will benefit from the implementation of China III emission standard as well as enjoy more stable and expanding market share. Moreover, the China III emission standard, being closely equivalent to the European III emission standard - a worldwide emission standard, will make the Group's products more internationalized with better product recognition. Therefore the implementation of China III emission standard is more advantageous to the Group's exports.

Management Discussion and Analysis

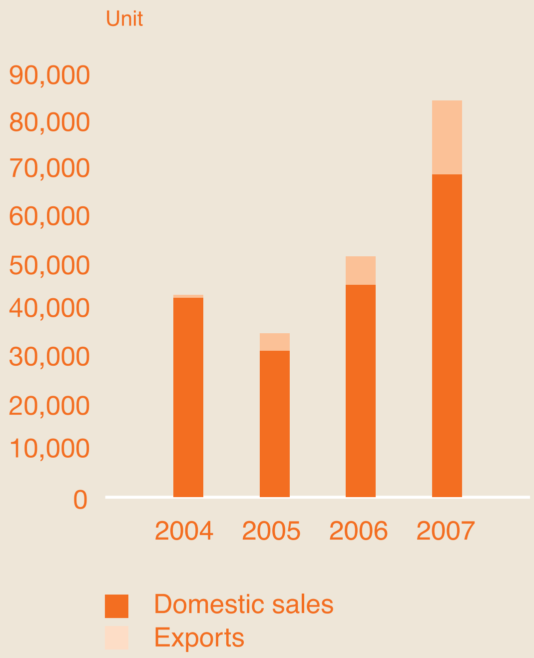


The Group

External sales of trucks increased by RMB 8,066.8 million or 67.3%, from RMB 11,982.6 million in 2006 to RMB 20,049.4 million in 2007. Sales volume increased from 51,573 units in 2006 to 84,481 units in 2007, of which 18.6% were exports. Operating profit before unallocated corporate expenses of Trucks segment increased from RMB 1,359.9 million in 2006 to RMB 1,736.2 million in 2007.

The Group improved its sales and after-sales service networks in both the domestic and overseas markets. As of the end of 2007, the Group had a total of 791 domestic distributors, including 120 4S Centers, independent stores only selling Sinotruk brand trucks and spare parts, providing after-sales services and collecting market information for Sinotruk. The Group had established business relationship with more than 260 truck refitting companies. In 2007, the Group's exports increased by RMB 2,619.0 million. It will continue to expand overseas markets and develop sales and after-sales service networks internationally. It will also seek to establish good relationships with strong business partners overseas. The Group's export markets include Russia, the Middle East, South East Asia, Africa and South America.

Sales Volume



On 14 December 2007, Sinotruk announced that its wholly-owned subsidiary, Sinotruk Jinan Power Co., Ltd., purchased the gearbox manufacturing business from Sinotruk's parent company, CNHTC, at a consideration of RMB153.2 million. The deal has been duly completed. With the acquisition, the Group gained capability to produce most of the key parts and components of heavy duty trucks, including engines, cabins, axles, truck frames and gearboxes. This has extended enabled Sinotruk to extend the production chain and reduces its dependence on external suppliers. The acquisition reduces production costs and will also enable the Company to maintain quality control. The acquisition also helps to reduce potential connected transactions with CNHTC.

In 2007, the Company's wholly owned subsidiary, Sinotruk Jinan Commercial Truck Co., Ltd. completed its relocation, and increased its annual production capacity to 40,000 units. Another subsidiary, Sinotruk Jinan Truck Co., Ltd., expanded production capacity to 80,000 units through technological innovation. The Group continues to expand production capacity. The annual production capacity of Sinotruk Jinan Commercial Truck Co., Ltd. and Sinotruk Jinan Truck Co., Ltd. are planned to increase to 50,000 units and 100,000 units respectively at the end of 2008.

Since the beginning of 2008, Sinotruk's corporate slogan has been "Produce, Design, and Economize for the Next Generation". It will carry out a technological upgrade of its existing products on a large scale. It has launched a new 2008 series of HOWO and Jin Wangzi to better satisfy demand, and has launched a brand-new model, HOKA, to the market for medium-sized heavy duty trucks. As a result, the Group made breakthroughs in developing new markets. Furthermore, the Group has successfully developed other new models in order to fulfill new needs of the market.

Sinotruk will cooperate with banks, insurance companies, distributors and dealers to meet market demand for vehicle loans. Under the proposed arrangement, the banks will provide loans for distributors and insurance company will provide insurance for loans. Sinotruk, insurance company, distributors and dealers will share responsibility in case of a default. Currently, the Company has signed letters of intent with these three parties, but has yet to implement the scheme.

Engines:

Revenue from the Engines segment increased by RMB 2,213.0 million or 71.1% to RMB 5,327.3 million in 2007, compared with RMB 3,114.3 million in 2006. Sales volume of engines for internal use accounted for 86.6%. The operating profit before unallocated corporate expense of the Engines segement increased from RMB 244.3 million in 2006 to RMB 614.7 million in 2007.

By the end of 2007, the Group completed the relocation of its engine manufacturing facility in Hangzhou, boosting the annual production capacity to 100,000 units. Production capacity of the engine manufacturing facility in Zhangqiu expanded to 50,000 units as a result of a technological upgrade. The engine production will give priority to our own use and sell the surplus to the market. Having met the China III emission standard, the Group is now preparing to meet a higher emission standard. During the year, the Group introduced its WT615 gas-fuelled engines to the market and its introduction will diversify the Group's products to meet the different needs of users.

Finance:

In 2007, revenue from finance services to external parties decreased by RMB 36.9 million or 73.4%, to RMB 13.4 million from RMB 50.3 million in 2006. The decrease was resulted from reduction of rediscounting business with financial institutions.

Others:

The Group's technological center is a nationally accredited heavy duty truck research and development institute. It has a leading position in the design and development of new products, the research and development of components and key parts in heavy duty truck in China and has also been commissioned to lead the State 863 Plan for heavy duty trucks research by the PRC government. As at 31 December 2007, the technical centre had received 52 patents for its proprietary technologies, including 6 invention patents, 45 application patents and 1 design patent. The Group is also legally authorised to use 829 registered patents granted by the PRC patent authority to CHNTC free of charge.

DIVIDENDS

According to the Company's dividend policy as disclosed in the Prospectus, the Company will distribute not less than 15% of profits available for distribution in respect of the year ended 31 December 2007. The Board proposed a final dividend of HK$ 0.071 per ordinary share for the year ended 31 December 2007, subject to approval by the shareholders of the Company at the forthcoming annual general meeting.

CLOSURE OF REGISTER OF MEMBERS

The proposed final dividend, if approved, will be distributed on or about 2 June 2008 to shareholders of the Company whose names appear on the register of members of the Company on 26 May 2008. The register of members of the Company will be closed from 20 May 2008 to 26 May 2008 (both days inclusive), during which period no transfer of shares will be registered. In order to qualify for receiving the proposed final dividend, holders of the Company's shares must lodge their share certificates together with the relevant share transfer documents with Computershare Hong Kong Investor Services Limited at Rooms 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong, not later than 4:30 p.m. on 19 May 2008.

INITIAL PUBLIC OFFERING

The shares of the Company became listed on The Stock Exchange of Hong Kong Limited on 28 November 2007. The number of shares for the Hong Kong public offering and the international offering amounted to 702,000,000 ordinary shares and received overwhelming responses from investors. The over-allotment option was exercised on 31 December 2007 for additional 73,199,000 ordinary shares. The Hong Kong Public Offering was 310 times oversubscribed. Subscription funds amounted to HK$ 284.07 billion. The Company raised a total of HK$ 9,430.1 million from the offering after deduction of shares issuing expenses. In accordance with the information provided to investors in the Prospectus, the net proceeds of the initial public offering will be used as follows:

Planned usage	Planned Amount HK$ million	For the year ended 31 December 2007 HK$ million	For the quarter ended 31 March 2008 HK$ million
Expand the engine manufacturing capacity and enhance the technology level of Sinotruk Hangzhou Engine Co., Ltd. in Xiaoshan district of Hangzhou	1,200.0	—	115.3
Expand the forging capacity and enhancing the technology level at Sinotruk Ji'nan Power Co., Ltd. in Zhangqiu district of Jinan	800.0	159.1	313.2
Expand the truck manufacturing capacity and enhance technology level at Sinotruk Ji'nan Truck Co., Ltd.	700.0	—	117.7
Expand the truck manufacturing capacity at and enhance technology level at Sinotruk Ji'nan Commercial Truck Co., Ltd.	600.0	—	7.0
Research and development	1,232.7	—	0.3
Domestic and overseas market expansion	1,056.6	—	—
Repay loans	2,897.8	18.7	950.0
General working capital	943.0	—	800.9
	9,430.1	177.8	2,304.4

As at 31 December 2007, the Group had utilised a total of HK$ 177.8 million of the proceeds. As at 31 March 2008, the Group had utilised a total of HK$ 2,304.4 million of the proceeds.

In accordance with the Provisional Measures on the Administration of the Reduction of State-owned Shares for the Raising of Social Security Funds promulgated by the State Council, Sinotruk (BVI) Limited had completed the transfer of 77,519,900 shares in the Company (equivalent to 10% of total shares issued in initial public offer and over-allotment option) to the National Social Security Fund.

CASH FLOW

During the year, net cash flow from operating activities was RMB 1,234.9 million, a decrease of 41.9% from last year. The decrease was primarily resulted from expansion of production and payment of taxes. The net proceeds from the Offering, after deducting from commissions and related expenses, were HK$ 9,430.1 million. The appreciation of RMB resulted exchange losses on cash and cash equivalents at RMB 102.4 million in 2007 (2006: RMB 3.5 million). At the end of the year under review, the Group recorded a net increase in cash and cash equivalents of RMB 7,857.6 million (2006: RMB 797.8 million).

LIQUIDITY AND CAPITAL RESOURCES

The Group had cash and cash equivalents of RMB 10,077.1 million at the end of 2007, a net increase of about RMB 7,755.2 million, compared with cash and cash equivalents of RMB 2,321.9 million at the end of 2006. The Group's total borrowings (including long-term and short-term borrowings) were about RMB 5,381.6 million at the end of 2007. Gearing ratio was 22.3%, calculated by dividing total borrowings by total assets. RMB borrowings accounted for 99.5% of total borrowings and the remainings are denominated in HK$. Most of the borrowings borne floating rates which were adjusted periodically and fell due within one year. The current ratio (total current assets divided by total current liabilities) was 1.73 compared with 0.93 last year. Improvement in the current ratio was due to the initial public offering, over-allotment and operating profits. As at 31 December 2007, total available credit facilities amounted to RMB 11,453 million, of which RMB 4,345 million had been utilised. A total net book value of RMB 122.6 million of the Group's assets was pledged to secure its borrowings and loan facilities. The Group has not committed to any other borrowings. In order to better manage its daily cash flow and enhance its liquidity, the Group has secured adequate short-term funding from banks and by issue of short-term commercial paper.

FINANCIAL MANAGEMENT AND POLICY

The 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 in any speculative activities. By the end of 2007, except for bank deposits of approximately RMB 7,641.0 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 reduce 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 31 December 2007, based on a review and assessment of its foreign exchange exposures, the Group did not make any hedging against foreign exchange risk. During the year under review, the Group recorded exchange losses of not less than RMB 102 million from Hong Kong dollars denominated funds raised from initial public offer and over-allotment exercise. As at 31 March 2008, the Group had converted HK$ 8,095.0 million into RMB.

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. The strong RMB position against HK$ will allow excessive dividend payout which is dominated in HK$.

CAPITAL STRUCTURE

At the end of the year under review, shareholders' equity was approximately RMB 11,903.3 million, representing an increase of RMB 10,318.3 million or 651.0% (2006: RMB 1,585.0 million). As at 31 December 2007, the Group's market capitalization was HK$ 27,575 million, based on the issued share capital of 2,275,199,000 shares, and a closing price of HK$ 12.12 per share.

MATERIAL INVESTMENTS

During 2007, the Group had some material investments including: (i) reorganization of the corporate structure prior to the listing; (ii) the acquisition of assets used in the manufacture of gearbox. Details of the transactions were published in the Prospectus and the announcement of the Company dated 14 December 2007 respectively.

GOING CONCERN

Based on the current financial forecast and the funding that can be utilised, the Group will have sufficient financial resources to continue its operations. As a result, the financial statements was prepared under the going concern assumption.

CONTINGENT LIABILITIES, LEGAL PROCEEDINGS AND POTENTIAL LITIGATION

In 2007, 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. As at 31 December 2007, the Group was involved in a number of lawsuits, six of which each involved claims of over RMB 1 million. The total amount of claims of all lawsuits was approximately RMB 20.2 million. The total provision for legal claims was RMB 2.2 million. 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 Company plans to increase its investment in Sinotruk Finance Company Limited ("Sinotruk Finance") by (i) acquiring 4.7% interest in Sinotruk Finance from its independent shareholders for RMB 23.2 million (the Company paid RMB 10.0 million as deposits) and (ii) by acquiring an additional interest in Sinotruk Finance through the subscription of its new shares for RMB 500 million (the Company paid RMB 500 million). 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. The transaction is subject to the final approval of the China Banking Regulatory Commission and other related government agencies.

HUMAN RESOURCES

As of 31 December 2007, the Group had a total of 13,983 employees. Human talent is the key to success of any business enterprise. The Group has focused human resource development on middle-level and high-level management such as to provide MBA courses aimed to enhance leadership, strategic planning capacity and the ability to follow market trends. In 2007, the Group improved its compensation system by adopt of reward on performance. Employees' performance will be reviewed and closely monitored on a regular basis. Salaries and bonuses will be determined accordingly.

VALUATION OF PROPERTY INTERESTS

With reference to the valuation of the property interests as set out in Appendix IV to the Prospectus, the amount of such revaluation is about RMB 2,070,133,000. The net revaluation surplus has not been included in the Group's financial statements for the year ended 31December 2007. It is the Group's accounting policy to state its property, plant and equipment and land use rights at cost less accumulated depreciation or accumulated amortisation 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 amortisation. Had the property interests been stated at such valuation, an additional depreciation and amortisation of RMB 6,020,000 and RMB 19,503,000, respectively, would be charged against the consolidated income statement for the year ended 31 December 2007.

DIRECTORS AND SENIOR MANAGEMENT

The following table provides information about our Directors and our senior management.

Name	Position
Ma Chunji	Chairman
Cai Dong	Executive Director and President
Wang Haotao	Executive Director and Vice President
Wei Zhihai	Executive Director and Vice President
Wang Guangxi	Executive Director and Vice President
Tong Jingen	Executive Director and chief economist
Wang Shanpo	Executive Director and chief engineer
Shao Qihui	Independent Non-executive Director
Lin Zhijun	Independent Non-executive Director
Ouyang Minggao	Independent Non-executive Director
Hu Zhenghuan	Independent Non-executive Director
Chen Zheng	Independent Non-executive Director
Li Xianyun	Independent Non-executive Director

Executive Directors

Ma Chunji (馬純濟), aged 54, is the chairman of our Board. Mr. Ma is a senior economist with over 30 years' experience in government, corporate management and strategic planning. Mr. Ma graduated from the Central Party College in 1995 with a diploma in economic management. He is currently the vice-chairman of China Association of Automobile Manufacturers (中國汽車工業協會) and a member of the Eleventh National People's Congress. Mr. Ma joined us in August 2000. Mr. Ma received a "National Model Worker" award from the State Council in 2005. In 2006, he was conferred a lifetime membership at the World Confederation of Productivity Science (世界生產力科學院) and was awarded the title "Star Entrepreneur of Jinan City (濟南市明星企業家)" in 2007. He is also the Chairman of our parent company. Prior to joining us, Mr. Ma had been vice mayor of Jinan Municipal Government, the head of Jinan Auto Accessory Works (濟南汽車配件廠), the director of the Economic Committee of Jinan (濟南市經委), and deputy commissioner of Jinan Mechanics and Industrial Bureau (濟南市機械工業局).

Cai Dong (蔡東), aged 44, is our executive Director and president. Mr. Cai is a senior engineer with an executive MBA degree from Nankai University (南開大學). He joined Jinan Auto Manufacturing Factory in 1983 and later leads our research and development, production and marketing. He received an "Outstanding National Entrepreneur" award conferred jointly by the China United Enterprises Association (中國企業聯合會), China Entrepreneurs Association (中國企業家協會) and China Enterprise Management Science Foundation (中國企業管理科學基金會) in April 2006. Mr. Cai was previously director of the technology center of our parent company. Mr. Cai was a director, chief engineer and the general manager of our parent company from 2001 to 2007.

Wang Haotao (王浩濤), aged 44, is our executive Director and vice president. Mr. Wang is an engineer with extensive experience in business development. Mr. Wang graduated from Shandong Agricultural Machinery College (山東農業機械學院) with a diploma in machinery engineering in 1987. He joined the Parent Company in 1987. Mr. Wang is currently the vice general manager and director of our parent company as well as the chairman of Sinotruk Jinan Truck Co., Ltd ("Sinotruk Jinan Truck Company"). Sinotruk Jinan Truck Company is a subsidiary of the Company, the shares of which are listed on the Shenzhen Stock Exchange in the PRC. He was the director of business development and international cooperation department of our Parent Company from 1994 to 1998, the deputy general manager of our parent company in 2001 and the chairman of CNHTC Jinan Bus Co., Ltd. in 2002.

Directors and Senior Management

Wei Zhihai (韋志海), aged 53, is our executive Director and vice president. Mr. Wei graduated from Tsinghua University with a diploma in legal studies in 2005. Mr. Wei is a senior economist with over 20 years of experience in business development and corporate management. He joined us in 2004 and was appointed the chairman of Sinotruk Shandong Import & Export Company in the same year. Mr. Wei is the chairman of Sinotruk (Hong Kong) International Investment Limited. Prior to joining us, Mr. Wei was the deputy director of the Economic Committee of Jinan, and the head of Jinan No. 4 Machine Tool Works (濟南第四機床廠). Mr. Wei was a director and the deputy general manager of our parent company from 2004 to 2007.

Wang Guangxi (王光西), aged 54, is our executive Director and vice president. Mr. Wang graduated from Shandong Economic Management Cadres College (山東經濟管理幹部培訓學院) with a diploma in economic management in 1994. Mr. Wang is a senior accountant with over 20 years of experience in financial management and internal control. He joined us in 2000 and is currently also the deputy general manager, chief accountant and director of our parent company. Prior to 2000, Mr. Wang had been the director of the finance department and deputy chief accountant of Jinan Auto Accessory Works. Mr. Wang was responsible for our accounting and financial functions.

Tong Jingen (童金根), aged 45, is our executive Director, company secretary and chief economist. Mr. Tong graduated with a master's degree in engineering from Tsinghua University in 1989. Mr. Tong is a senior economist with approximately 20 years of experience in corporate management and business development in the automotive industry. He joined Jinan Auto Manufacturing Factory in 1983 and was the chief economist and director of our parent company from July 2002 to April 2007. Mr. Tong was the deputy director of the corporate management department of Jinan Motor Vehicle Company (濟南汽車製造總廠) from 1995 to 1996, and was the deputy manager of sales department of our parent company from 1998 to 2001. Mr. Tong was a non-executive director of Weichai Power Co., Ltd. ("Weichai Power") from 2003 to 2006. The shares of Weichai Power are listed on the Hong Kong Stock Exchange ("Stock Exchange").

Wang Shanpo (王善坡), aged 43, is our executive Director and chief engineer. Mr. Wang graduated with a master's degree in engineering from Shandong Industrial University (山東工業大學) in 1984. Mr. Wang is a senior engineer with approximately 20 years of experience in automotive research and development and engineering. He joined the parent company in 1984 and was the chief engineer of our Parent Company. Mr. Wang was the director of Sinotruk Technical Center from 1999 to 2000.

Independent Non-executive Directors

Shao Qihui (邵奇惠), aged 73, is our independent non-executive Director. Mr. Shao is a senior engineer who has extensive experience in engineering. Mr. Shao has designed and invented lever vehicle steering with variable transmission ratio and processing machine tools and was among the first professionals awarded with "Outstanding Contributor" by the State. Mr. Shao currently is the honorary chairman of the Society of Automotive Engineers of China (中國汽車工程學會), a member of the PRC State Commission of Science and Technology (中國國家科學技術委員會) and the honorary chairman of the Federation of Machinery Industry of China (中國機械工業聯合會). He was the Governor of Heilongjiang Province from 1989 to 1994 and the head of the State Bureau of Mechanical Industry (國家機械工業局) from 1998 to 1999.

Lin Zhijun (林志軍), aged 53, is our independent non-executive Director. Mr. Lin graduated from Xiamen University in 1982 with a master degree in economics and later received a Ph.D. degree in Economics from Xiamen University (廈門大學) in 1985. He is a member of the American Institute of Certified Public Accountants (AICPA), the Chinese Institute of Certified Public Accountants (CICPA) and the Certified Management Accountants of Australia (CMA). He is currently a professor and the head of the department of Accountancy and Law in the Hong Kong Baptist University. Mr. Lin was previously an auditing staff at an international accounting firm (Touche Ross International, now known as "Deloitte Touche Tohmatsu") in Toronto, an associate professor of economics in Xiamen University, and a professor in accountancy of Lethbridge University in Canada. Mr. Lin currently is an independent non-executive director of China Everbright Limited, a company whose securities are listed on the Stock Exchange.

Ouyang Minggao (歐陽明高), aged 49, is our independent non-executive Director. Professor Ouyang graduated from the Technical University of Denmark with a Doctorate degree in engineering in 1993. He is one of the nationally recognized experts in the area of strategic development of automobile technology and energy. He is currently a Standing Member of the Chinese People's Consultative Conference (全國政協常委), dean of the department of automotive engineering in Tsinghua University and director of the National Laboratory of Automobile Safety and Energy Saving (汽車安全與節能國家重點實驗室). In addition, he is also an executive member of the Society of Automobile Engineering of China (中國汽車工程協會). Professor Ouyang has extensive experience in the research and development in automobile energy and new engines and has worked over 30 patents. Professor Ouyang has been granted various awards for his inventions, including "Award for Originality" for electronically controlled diesel oil injection system.

Hu Zhenghuan (胡正寰), aged 73, is our independent non-executive Director. Professor Hu graduated from University of Science and Technology Beijing (北京科技大學, formerly Beijing Institute of Metallurgy北京鋼鐵學院) in 1956. Professor Hu has been the vice-dean of the mechanical engineering department in Beijing University of Technology (北京工業大學), the head of Mechanical Engineering Research Centre, the head of the Research Centre of Parts Rolling and a council member of China Engineering Society (中國機械工程協會). Professor Hu has been granted various awards, including the "State Outstanding Technical Officer", "Technology Achievement" and "State Outstanding Contributor". Professor Hu was elected the member of the Chinese Academy of Engineering (中國工程院) in 1997 and has been one of the core members engaged in the research of parts rolling technology in China since 1958.

Chen Zheng (陳正), aged 62, is our independent non-executive director. Mr. Chen graduated from the Beijing University of Technology (北京工業大學) in 1970 with a bachelor degree in mechanical engineering. Mr. Chen has over 30 years of experience in the mechanical design and automotive engineering field. He has been the deputy head of the technology division of China Auto Parts and Accessories Corporation (中國汽車零部件工業公司), the department head of the international cooperation department of China National Automotive Industrial Corporation (中國汽車工業總公司), the vice general manager of China National Automotive Industry Import and Export Corporation (中國汽車工業進出口公司) and the vice chairman of the board of directors of China Automotive Finance Company Limited (中汽財務有限責任公司).

Li Xianyun (李羨雲), aged 76, is our independent non-executive director. Mr. Li graduated from the Jilin University of Technology(吉林工業大學) in 1956 with a bachelor degree in automotive engineering. Mr. Li has been an engineer of Beijing Automotive and Tractor Research Laboratory (北京汽車拖拉機研究所) and Changchun Automotive Research Institute (長春汽車研究所), the chief engineer of China Auto Parts and Accessories Corporation (中國汽車零部件工業公司) and the senior engineer of China Automobile Industry Federation (中國汽車工業聯合會). He has substantial experience in the research and development of automobile technology and corporate strategic management. Mr. Li has been appointed as one of the members of the expert committee of China Association of Automobile Manufacturers (中國汽車工業協會) since 2004.

Company secretaries and qualified accountant

Mr. Tong Jingen (童金根), aged 45, is our executive Director and company secretary. Please refer to the paragraph headed "Executive Directors" above.

Mr. Kwok Ka Yiu (郭家耀), aged 43, is our company secretary, qualified accountant and financial controller. Mr. Kwok has nearly seven years of audit experience in one of the prestigious international audit firms, KPMG and over ten years of financial and accounting experiences with companies listed on the Stock Exchange. Mr. Kwok holds an MBA degree from the University of Hong Kong and is an associate member of the Hong Kong Institute of Certified Public Accountants and a fellow member of the Association of Chartered Certified Accountants. Mr. Kwok joined us in May 2007.

Corporate Governance Report

CORPORATE GOVERNANCE PRACTICE

The Board and senior management of the Company aim to maintain a high standard of internal control by enhancing the consistency and transparency of operational and financial management through internal audit and assessable measurement. The objective is to maintain a high standard of corporate governance, formulate good corporate governance practice for improving accountability and transparency in operations, and strengthen the internal control system from time to time, in line with the expectations of the Company's shareholders. The Company has been in compliance with the Code on Corporate Governance Practices as set out in Appendix 14 of Rules Governing of the Listing of Securities on the Stock Exchange ("Listing Rules").

During the period of preparation for listing, the Group adopted a Code on Corporate Governance Practice ("Code of Corporate Governance") with the assistance from Protiviti Shanghai Corporation Limited ("Protiviti Shanghai"), and the Code of Corporate Governance was duly observed since then. After listing successfully, the Group continued to engage Protiviti Shanghai as its corporate governance advisor, and appointed China International Capital Corporation (Hong Kong) Limited and J.P. Morgan Securities (Asia Pacific) Limited to be the Company's joint compliance advisors. Regular meetings are held currently for periodic review in order to meet the latest practice requirements on corporate governance. Details of compliance with the requirements of the Code of Corporate Government by the Company are set out in the following sections.

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 of the Listing Rules as the code of conduct for securities transactions by directors of the Company (the "Directors"). After making specific enquiries with all Directors, the Company confirmed that all Directors have compiled with the standards required by the Code during the period under review.

BOARD OF DIRECTORS

Composition of Board of Directors

The Board has a total number of 13 Directors comprising 7 executive Directors including Mr. Ma Chunji, Mr. Cai Dong, Mr. Wang Haotao, Mr. Wei Zhihai, Mr. Wang Guangxi, Mr. Tong Jingen and Mr. Wang Shanpo, and 6 independent non-executive Directors including Mr. Shao Qihui, Mr. Lin Zhijun, Mr. Ouyang Minggao, Mr. Hu Zhenghuan, Mr. Chen Zheng and Mr. Li Xianyun. Mr. Ma Chunji is the chairman of the Board and Mr. Cai Dong is the President. Biographies of the Directors are set out in the section "Directors and Senior Management".

The Company has appointed a sufficient number of independent non-executive Directors in accordance with Rule 3.10(1) and 3.10(2) of the Listing Rules. Such independent non-executive Directors have relevant professional qualifications or relevant accounting or financial management experience. According to Rule 3.13 of the Listing Rules, the Company has already received annual confirmation letters of independence from all independent non-executive Directors. The Board considers that all independent non-executive Directors are independent as defined in the Listing Rules. In order to enhance the independence of the Board, over one-third of the Board members are independent non-executive Directors to ensure an effective decision making process for independent judgments and the provision of independent advice to shareholders by the Board. The Company will continue to ensure that the independent non-executive Directors have eligible qualifications, knowledge, experience, independence and that they have influence over the decision making process of the Company.

In 2007, details of directors' attendance in the following meetings are set out below:

	Regular Full Board Meetings	Audit Committee Meeting
Executive Directors	2/2	
Mr. Ma Chunji	2/2	
Mr. Cai Dong	2/2	
Mr. Wei Zhihai[1]	1/2	
Mr. Wang Guangxi	2/2	1/1
Mr. Tong Jingen	2/2	1/1
Mr. Wang Shanpo	2/2	
Independent Non-executive Directors		
Mr. Shao Qihui	2/2	
Mr. Lin Zhijun	2/2	1/1
Mr. Ouyang Minggao	2/2	1/1
Mr. Hu Zhenghuan[1]	1/2	
Mr. Chen Zheng	2/2	1/1
Mr. Li Xianyun	2/2	

1 Mr. Wei Zhihai and Mr. Hu Zhenghuan were unable to attend the regular full Board meeting held on 26 July 2007 and had appointed Mr. Tong Jingen and Mr. Cai Dong as their proxies respectively for exercising their voting power.

During the year under review, no formal meetings were held by the Strategy and Investment Committee and the Remuneration Committee.

BOARD OF DIRECTORS AND EXECUTIVE COMMITTEES

The Board of Directors is responsible for the supervision of corporate governance, formulation of policies and results performance, while daily operations and management are delegated to authorized management officers who will be held responsible for the running of the business and the heads of various departments will be responsible for the management of various business segments. According to the provisions of Article 93 (3) of the Articles of Association of the Company, the Board has formed an Executive Committee comprising all executive Directors for the management of daily business. Besides, the Board has also authorized executive management staff for daily operational duties, whereas the Strategy and Investment Committee, the Remuneration Committee and the Audit Committee are responsible for separate duties. Details of such committees are set out herein.

The Company generally convenes 4 regular full Board meetings per year or more meetings may be convened when necessary. During the period from July to December 2007, 2 regular full Board meetings were convened, and had respectively:

(1) reviewed the production operations and financial reports of the Group for the period ended 30 June 2007;

(2) established the Strategy and Investment Committee, Remuneration Committee and Audit Committee;

(3) established the internal control steering committee, reviewed and approved the "Proposed Internal Control Construction Work Plan";

(4) Reviewed and approved the interim investment plan;

(5) Reported and monitored the connected transactions system; and

(6) Reviewed and approved all documents required for listing including change of memorandum and articles of association of the Company, the Prospectus, audit reports, profit forecasts, listing application documents, etc.

Minutes of the Board meetings or meetings of other committees are kept by the company secretary or secretary of the relevant committee respectively, any Director or committee member may review the relevant records after giving reasonable prior notice at any reasonable time. All Directors or committee members shall receive complete set of Board meeting or committee meeting documents and relevant data within a reasonable time prior to the proposed date of the meeting to be held, including information about the Group's major business activities, financial highlights and business review. Any Director or committee member may make enquiry with the management officer and obtain more data for making decisions, when necessary. All Directors and committee members may request for advice and services from the company secretary or committee secretary.

Directors are continuously supplied with the latest information on the relevant legal and regulatory developments, the Group's business and market changes and developments to assist them in performing their duties and responsibilities. In addition, a Director may seek independent professional advice in the course of performing his responsibilities and duties for the Company and the fees will be borne by the Company. Independent non-executive Directors and executive Directors must perform their duties and responsibilities in good faith. Independent non-executive Directors offer different areas of knowledge and professional skills to the Group. Independent non-executive Directors must also actively participate in Board meetings, assist in the formulation of strategies and policies, and make judgments on various issues, as well as to be responsible for handling conflict of interest matters. They are also members of various specific committees under the Board, sufficient time and efforts should be dedicated to handle the affairs of the Company.

APPOINTMENT, RE-ELECTION AND REMOVAL OF DIRECTORS

According to the provisions of Article 84(1) of the Articles of Association of the Company, one-third of the current Directors must retire on rotation at each Annual General Meeting of the shareholders. The Directors who retire in each year are those Directors who have been appointed to the Board within the year or those with the longest years of service since the last election or re-election. Any Director appointed to fill a temporary vacancy of directorship must be subject to re-election in the next Annual General Meeting held subsequent to his appointment. New Directors should not include the number of Directors who must retire on rotation at the relevant Annual General Meetings. Independent non-executive Directors of the Company serve for a term of 3 years, provided they must also retire on rotation at the Annual General Meeting of the Company pursuant to Article 84(1) of the Articles of Association of the Company.

The Company did not establish any Nomination Committee. According to Article 81 of the Articles of Association of the Company, the Board of Directors is entitled, from time to time and at any time, to appoint any person to be a Director for filling any vacant directorship or for increasing the number of Directors. In assessing the nominations for new Directors, the Board will consider the qualifications and biographical information, experience and potential contributions that may be brought to the Company.

SEPARATION OF RESPONSIBILITIES

For the financial year ended 31 December 2007, the Board had appointed a Chairman whose responsibilities include overseeing the leadership and effective operation of the Board, formulation of policies and business directions, and timely discussions of all major and relevant matters. The Board also comprises 6 independent non-executive Directors who contribute their independent judgment, knowledge and experience to the Board. In addition, all executive directors are authorized to monitor and supervise the operations of respective business sectors and to implement the strategies and policies formulated by the Board of Directors. As described below, a major of the members of the Remuneration Committee and the Audit Committee are independent non-executive Directors, in order to ensure that powers, authorities and power structures are sufficiently balanced within the Group.

STRATEGY AND INVESTMENT COMMITTEE

The Company has established the Strategy and Investment Committee under the Board and stipulated its scope of duties and responsibilities on 26 July 2007. The Strategy and Investment Committee is mainly responsible for the formulation of medium and long term strategic plans and business development strategies including the studying and recommendation of significant investment financing initiatives and significant capital operations and asset operation projects.

The Strategy and Investment Committee is currently comprising 7 members, namely, Mr. Ma Chunji, Mr. Cai Dong, Mr. Shao Qihui, Mr. Ouyang Minggao, Mr. Hu Zhenghuan, Mr. Wang Haotao and Mr. Wong Shanpo. Mr. Ouyang Minggao, Mr. Shao Qihui and Mr. Hu Zhenghuan are independent non-executive Directors. Mr. Ma Chunji is the chairman of the committee.

REMUNERATION COMMITTEE

The Company has established the Remuneration Committee under the Board and stipulated its scope of duties and responsibilities on 26 July 2007. The Remuneration Committee is mainly responsible for the appraisal of the senior management performance and make recommendation on their remuneration including the formulation of performance assessment standards, procedures, major proposals and mechanisms of the assessment systems, rewards and penalties, as well as the stock options incentive schemes. The Remuneration Committee will also supervise the remuneration and other benefits offered by the Company to Directors.

The Remuneration Committee is currently comprising 5 members, namely, Mr. Chen Zheng, Mr. Lin Zhijun, Mr. Li Xianyun, Mr. Wei Zhihai and Mr. Tong Jingen. Mr. Chen Zheng, Mr. Lin Zhijun and Mr. Li Xianyun are independent non-executive Directors of the Company. Mr. Chen Zheng is the chairman of the committee.

REMUNERATION AND BENEFITS FOR DIRECTORS AND THE SENIOR MANAGEMENT

The remuneration package for Directors and senior management include a basic salary, year-end bonus and retirement fund. Apart from basic salaries, executive Directors and employees are entitled to year-end bonus, depending on the market conditions, performance of the enterprise and indivdual persons during the year.

AUDIT COMMITTEE

The Company has established the Audit Committee under the Board on 26 July 2007, and stipulated its scope of duties and responsibilities in accordance with the Listing Rules. The Audit Committee is mainly responsible for reviewing and monitoring the financial control, internal control and risk management systems, including reassessment of the financial and accounting policies, review of annual reports and accounts, interim reports, etc. In addition, the Audit Committee is responsible for the appointment, re-appointment and removal of external auditor, and for reporting to the Board on the recommendation, review and supervision of the external auditor in respect of its independence and objectivity, the effectiveness of the audit procedures, approval of the remuneration and terms of engagement of the external auditor, formulation of policies on the provision of non-audit services by the external auditor, the handling of any issues related to the resignation of auditors or the removal of such auditors, and the communication with the external auditor on auditing matters.

The Audit Committee is currently comprising 5 members, namely, Mr. Lin Zhijun, Mr. Ouyang Minggao, Mr. Chen Zheng, Mr. Wang Guangxi and Mr. Tong Jingen. Mr. Lin Zhijun, Mr. Ouyang Minggao and Mr. Chen Zheng are independent non-executive Directors of the Company. Mr. Lin Zhijun is the chairman of the committee. With Mr. Lin's past working experience as auditor and his academic background in finance and accounting, the Company considers that Mr. Lin is a qualified person with the proper professional knowledge in accounting and finance required by Rule 3.10(2) of the Listing Rules. In addition, Mr. Ouyang Minggao and Mr. Chen Zheng possess rich experience in the industry.

ACCOUNTABILITY AND AUDITING

The Directors are responsible for preparing the financial statements for the financial year ended 31 December 2007 to reflect a true and fair view of the Group's financial conditions and the results and cashflows during the year. In preparing the financial statements for the year ended 31 December 2007, the generally accepted accounting principles in Hong Kong, Hong Kong Financial Reporting Standards and Hong Kong Accounting Standards are adopted, with consistent use of appropriate accounting policies, for making reasonable and prudent judgments and estimates. The Board has reviewed the Group's financial budget for 2008, the Directors consider that the Group owns sufficient resources for continuing operations in the foreseeable future, are not aware of any material uncertainties or events which may casue any possible significant hazards to the continuing operational capability of the Group. Therefore, the Board considers that the financial statements should be compiled on the basis of a going concern.

INTERNAL CONTROL

The Board of Directors is responsible for the maintenance of a stable, effective internal control system for the Group. The internal control framework of the Group includes (i) the formulation of a transparent management structure with restricted authority and clear responsibilites and (ii) the reporting of financial information at fixed time period intervals, particular attention will be paid to the review matching of the budget and target amounts. Relevant executive Directors and senior management staff are granted different levels of authorities. The annual budget of the Group will be approved by the Board. Relevant executive Directors and senior management staff must refer to the actual results and the annual budget in order to supervise the performance, actions and businesses of various subsidiaries of the Group. Executive Directors will receive monthly financial reports for monitoring the Group's business operations by the Board and management staff of the Group conveniently and the formulation of prudent and timely plans. The Board and its committees will also receive other regular and special reports to ensure timely provision of all appropriate data to the Directors.

In the course of preparation for listing, the Group had appointed Protiviti Shanghai to appraise the internal controls of the Group. Various recommendations made by Protiviti Shanghai and adopted by the Group include:

- the improvement and amendment of the work plans
- the formulation of the internal control work plan for 2008
- the preparation of the internal operational flows of the Group
- the training of middle and senior management officers and some key staff engaging in the operations of corporate internal control and financial management so as to increase the management's awareness of internal controls of risks and enhance the internal control environment of the Company
- adjustment of the organizational structure to match with the Group's development and the establishment of the securities department which is responsible for liaising with local and overseas securities regulatory authorities, disclosure of annual reports and announcements, investor relationship, coordination of materials for the Board meetings and research on the policies and information related to local and overseas securities markets.

After listing was completed, the Group continued to employ Protiviti Shanghai to recommend proposals for the construction of the Group's internal control system, assist to conduct internal audit and appraisal work, and improve the internal control system, including testing and appraisal of key flow processes, separate tests on bills are conducted on quarterly basis, tests on the implementation of the internal control system are conducted on quarterly basis, continuous training on internal control knowledge are provided for internal staff, etc.

The Group had also appointed Protiviti Shanghai to conduct (i) reviews on the trade finance activities of the Company on comprehensive scale on quarterly basis and (ii) reviews and tests on the effectiveness of internal control measures of the Group on quarterly basis, and the findings were as follows:

(i)Tests were conducted on the internal controls of Sinotruk by Protiviti Shanghai in respect of its bills transactions occurred during the period from 1 October 2007 to 31 December 2007. No bills issued among internal companies of the Group during the period from 1 October 2007 to 31 December 2007 were found to have a background of untrue dealings and (ii) based on the enquiries on the Company's capital management, fixed asset management and construction-in-progress management processes as well as the verified testing conducted, Protiviti Shanghai was of the view that the existing control system of the Company has significant improvement in terms of design which is gradually building up into a systematic and comprehensive internal control system to keep up with the continual advancement in stages. According to the management of the Company, a rectification plan issued by the internal control office of the Company will be carried out by all departments based on the rectification opinions made by Protiviti Shanghai in respect of the design defects found during the internal control process, and each department shall complete the rectification within schedule.

Non-competing undertaking

In order to protect the Group's current interests, CNHTC entered into a non-competition undertaking (the "Non-competition Undertaking") on 3 November 2007 in favour of the Company, details of which are set out in the section headed "Relationship with the Parent Company" of the Prospectus.

To ensure the enforcement of the Non-competition Undertaking and to strengthen the protection of the Shareholders' interests as a whole, the Company has implemented a corporate governance system to manage the potential conflicts of interests between the Company and CNHTC, details of which are set out in the section headed "Relationship with the Parent Company" of the Prospectus.

During the year under review, Sinotruk Jinan Power Co., Ltd, a wholly-owned subsidiary of the Company entered into an agreement with CNHTC for acquisition of the gearbox business assets (the "Acquisition"), details of which are set out in the announcement of the Company dated 14 December 2007. The Acquisition was entered into on normal commercial terms (being terms not less favourable than available to independent third parties) after arm's length negotiations, and such exercise of the priority right to acquire the new business opportunities under the Non-competition Undertaking for the Acquisition were approved by all independent non-executive Director.

The independent non-executive Directors have conducted review and examination on the new activities and opportunities under the Non-competition Undertaking and matters inherent with potential conflict of interests, if any. Based on the valuation of the gearbox business, the performance of the gearbox business, the compatibility of the strategy of the Group and the gearbox business, the prevailing market conditions, the Group's available resources and other options available to the Group to purchase similar business from third parties or establish similar businesses, the independent non-executive Directors view that the exercise of option to purchase the gearbox business from CNHTC was fair and reasonable and in the interests of the Company and its shareholders as a whole.

The Board has received an annual confirmation from CNHTC for its compliance with the Non-competition Undertaking. After conducting the review, the Directors, including all independent non-executive Directors are of the view, that the Non-competition Undertaking have been complied with by all parties.

REMUNERATION OF AUDITORS

For the year ended 31 December 2007, the amounts of remuneration paid or payable to the auditors of the Group for their auditing services rendered are approximately:

PricewaterhouseCoopers	Annual auditing services for 2007	RMB 6,720,232
Zhonghe Zhengxin CPA	Annual auditing services for 2007	RMB 700,000

COMMUNICATIONS WITH SHAREHOLDERS

The Company considers that active communications with investors are important and provides reports with transparency and clarity in disclosures. The Company has already established a securities department to promote investor relations actively for increased communications, to ensure that the investors are able to obtain information about the Company on a fair and timely basis to assist them in making the best investment decisions. For cultivating good relationship with shareholders and potential investors, the Company has participated in a number of one-on-one meetings, investors' conferences and roadshows during the year. Since its listing on the Stock Exchange of Hong Kong, the Company has organized a number of production base site visits including the visits made by investors in December 2007. Analysts and fund managers may enrich their knowledge on the production operations of the Group through these activities. The Company also encourages all shareholders to participate in the annual general meetings, where the members of the Board of Directors and the external auditors will be present, providing an effective platform for interflows and communications between the shareholders and the Board of Directors. Investors and the public may also browse the website of the Company www.sinotruk.com for the latest information available in respect of the Company including information on the financial conditions and the latest business developments of the Company.

The Board and the senior management are well aware of their important tasks of acting on behalf of the interests of all shareholders and raising the shareholders' returns. The annual general meeting is an important opportunity for direct communication between the Board and the shareholders. The notice of the annual general meeting, together with the annual report and any notice of any future annual general meetings will be sent out to the shareholders at least 21 days prior to the date on which the annual general meeting will be held. The notice contains details on the procedures to request and conduct voting by poll as well as other relevant information related to the proposed resolutions.

Report of the Directors

The Directors are pleased to present their report and the audited financial statements of the Group for the year ended 31 December 2007.

GROUP REORGANIZATION AND CHANGE OF COMPANY NAME

The Company was incorporated in Hong Kong with limited liability under the name of Skypond International Limited 普偉國際有限公司 on 31 January 2007 in accordance with the Companies Ordinance of Hong Kong, and changed its name to Sinotruk (Hong Kong) Limited （中國重汽（香港）有限公司）by way of a special resolution on 5 March 2007.

To reorganize the structure of the Group in preparation for the listing of the shares of the Company on the main board of the Stock Exchange, the Company underwent the reorganization (the "Reorganization") disclosed in the offering prospectus (the "Prospectus") dated 15 November 2007. Under the Reorganization, the Company became the holding company of all the other companies of the Group on 2 April 2007. Further details of the Reorganization are set out in note 1 of the consolidated financial statements of the Group.

Following the Reorganization and the completion of the public offering, the shares of the Company (the "Shares") were listed on the Stock Exchange on 28 November 2007.

PRINCIPAL BUSINESS

The Company is principally engaged in investment holding. The principal subsidiaries of the Company primarily specialize in the research, development and manufacturing of heavy duty trucks and related key parts and components, including engines, cabins, axles, steel frames and gearboxes. Details of principal activities of the Company's subsidiaries are set out in note 35 to the financial statements. Saved as the acquisition of assets used in the production of gearbox, there has been no significant changes in the principal business of the Group during the year under review.

OPERATING RESULTS AND DIVIDENDS DISTRIBUTION

The results and appropriation of the Group for the year ended 31 December 2007 are set out in the consolidated income statement on page 48. The Directors recommend the payment of a final dividend of HK$0.071 per Share for the year ended 31 December 2007 totalling approximately HK$161,539,000, which is subject to shareholders' approval at the forth coming annual general meeting.

RESERVES

Movements in the reserve of the Group and the Company during the year under review are set out in the consolidated statement of changes in equity page 49 and note 14 to the consolidated financial statements.

PROPERTY, PLANT AND EQUIPMENT

Movements in the property, plant and equipment of the Group and the Company during the year under review are set out in note 7 to the consolidated financial statements.

SHARE CAPITAL

Movements in the share capital of the Company during the year under review are set out in note 14 to the consolidated financial statements.

DISTRIBUTABLE RESERVES

The Company's distributable reserves as at 31 December 2007 were approximately RMB165,291,000.

CHARITABLE DONATION

The Group's total charitable donation for the year under review amounted to RMB949,290 (2006: nil).

BANK BORROWINGS

Details of the Group's bank borrowings as at 31 December 2007 are set out in note 17 to the financial statements.

FIVE-YEAR FINANCIAL SUMMARY

A summary of the results and assets and liabilities of the Group in the past five financial years is set out on page 131.

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 year under review.

SHARE OPTION SCHEME

The Company did not have any share option scheme in the year ended 31 December 2007.

DIRECTORS

Directors during the year were as follows:

Executive Directors:	
Ma Chunji (Chairman)	(appointed on 12 February 2007)
Cai Dong (President)	(appointed on 12 February 2007)
Wang Haotao (Vice President)	(appointed on 12 February 2007)
Wei Zhihai (Vice President)	(appointed on 12 February 2007)
Wang Guangxi (Vice President)	(appointed on 12 February 2007)
Tong Jingen (Chief Economist)	(appointed on 12 February 2007)
Wang Shanpo (Chief Engineer)	(appointed on 12 February 2007)
Independent non-executive Directors:	
Shao Qihui	(appointed on 26 July 2007)
Lin Zhijun	(appointed on 26 July 2007)
Ouyang Minggao	(appointed on 26 July 2007)
Hu Zhenghuan	(appointed on 26 July 2007)
Chen Zheng	(appointed on 26 July 2007)
Li Xianyun	(appointed on 26 July 2007)

The Company has received the annual confirmation from each of the independent non-executive Directors in accordance with Rule 3.13 of the Listing Rules, and the Company considers that all the independent non-executive Directors to be independent.

Pursuant to article 84 of the articles of association of the Company, Cai Dong, Wei Zhihai, Wang Guangxi, Tong Jingen and Wang Shanpo will retire by rotation at the forthcoming annual general meeting and, being eligible, will be available for re-election as Directors.

DIRECTORS' SERVICE CONTRACTS

Each of the executive Directors has entered into a service contract with the Company on 3 November 2007 for a term of three years commencing from 1 November 2007. Each of the contracts can be terminated by either party giving not less than three months' prior written notice.

In addition, each of the independent non-executive Directors has entered into a service contract with the Company on 26 July 2007 for a term of three years from the date of the service contracts. Each of the contracts can be terminated by or either party by giving not less than three months' prior written notice.

None of the Directors has or is proposed to have any service contract with the Company or its subsidiary that is not terminable by the employer within one year without payment of compensation (other than statutory compensation).

DIRECTORS' INTERESTS IN CONTRACTS

Since Mr. Ma Chunji is the chairman of CNHTC, Mr. Wang Haotao is the vice general manager and director of CNHTC and Mr. Wang Gaungxi is the deputy general manager, chief accountant and director of CNHTC, save as significant transactions between the Group and CNHTC (including its associates) as disclosed in the related party transactions in note 36 to the consolidated financial statements, no contract of significance to the business of the Group subsisted during or at the end of the year under review in which a Director was materially interested, either directly or indirectly.

BIOGRAPHICAL DETAILS OF THE DIRECTORS AND SENIOR MANAGEMENT

Biographical details of the Directors and senior management of the Company are set out on page 22 to page 24.

DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES

As of 31 December 2007, so far is known to the Directors, none of the Directors or chief executive of the Company had any interests or short positions in the Shares, underlying Shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")) which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions therein that they shall be deemed to have pursuant to such provisions of the SFO), or any interests or short positions which were recorded in the register required to be kept by the Company pursuant to Section 352 of the SFO, or any interests or short positions which have to be notified to the Company and the Stock Exchange pursuant to Mode Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 to the Listing Rules.

SUBSTANTIAL SHAREHOLDERS' INTERESTS AND OTHER PERSONS' INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES

As at 31 December 2007, so far as it is known to the Directors, the person (other than a Director or chief executive of the Company) who had, or were deemed or taken to have interests or short positions in the Shares or underlying Shares which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO or which were recorded in the register of the Company required to be kept under section 336 of the SFO or who were directly or indirectly interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any member of the Group was as follows:

Name of shareholder	Capacity	Number of shares in which the shareholder is deemed to have interests	Percentage of shareholding (%)
Sinotruk (BVI) Limited (Note)	beneficial owner	1,422,480,100	62.52%

Note: Sinotruk (BVI) Limited is a company incorporated in the British Virgin Islands whose entire share capital is held by CNHTC. CNHTC is deemed to have an interest in all the Shares held by Sinotruk (BVI) Limited under the SFO.

Save as disclosed above, as at 31 December 2007, so far as it is known to the Directors, there was no other person (other than a Director or chief executive of the Company) who had, or were deemed or taken to have interests or short positions in the Shares or underlying Shares which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO or which were recorded in the register of the Company required to be kept under section 336 of the SFO or who were directly or indirectly interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any member of the Group.

MANAGEMENT CONTRACTS

No management and administration contracts in respect of all or part of the businesses of the Company or the Group were entered into or subsisted during the year.

MAJOR CUSTOMERS AND SUPPLIERS

The following are the percentages of purchases and sales attributable to the major customers and suppliers of the Group as at 31 December 2007:

Purchases

– the largest supplier	6.0%
– the five largest suppliers	15.4%

Sales

– the largest customer	9.1%
– the five largest customers	19.8%

None of the Directors, or any of their associates or any shareholders who, to the knowledge of the Directors, hold over 5% of the issued share capital of the Company, had any beneficial interest in the major customers or suppliers of the Group noted above.

CONNECTED TRANSACTIONS

Details of connected transactions of the Group under the Listing Rules are set out as below and includes significant related party transactions which are set out in note 36(a) (i) to the consolidated financial statements.

A) Connected Transaction Exempt From the Independent Shareholders' Approval Requirements

On 14 December 2007, Sinotruk Jinan Power Co., Ltd, a wholly own subsidiary of the Company entered into the agreement with CNHTC to acquire gearbox business ("Acquisition") at the consideration of RMB153 million in cash.

CNHTC is the controlling shareholder of the Company and thus the Acquisition constitutes a connected transaction for the Company under Chapter 14A of the Listing Rules. Since the percentage ratios (other than the profits ratio) of the Acquisition is less than 2.5%, according to Rule 14A.32 of the Listing Rules, the Acquisition is subject to reporting and announcement requirements and is exempted from the independent Shareholders' approval requirement.

The Acquisition will benefit the Group in the following aspects:

(a) the Group will further vertically integrate its production process and in turn reduce the operation risk or relying on outside suppliers by manufacturing all key parts and components for heavy duty trucks, including engine, cabin, axle, clutch and transmissions. The integrated business chain of the Group will be one of the most completed among its domestic peers in the PRC;

(b) the Group will further enhance its profitability by reducing cost of relying on outside source for a crucial component of the Group's products;

(c) through the Acquisition, the Group will further improve its competitiveness and strengths of its products with the capacity of unifying and improving all key parts and components from time to time; and

(d) to avoid potential future connected transactions should the Group purchase gearboxes from CNHTC.

Details of the Acquisition are set out in the announcement of the Company dated 14 December 2007.

B) Non-exempt Continuing Connected Transactions

Under Rule 14A.35 of the Listing Rules, the following transactions constitute non-exempt continuing connected transactions of the Company and are subject to reporting and announcement requirements and the approval of the independent shareholders. However, the Stock Exchange has granted the Company a conditional waiver from strict compliance of the disclosure requirements and independent shareholders' approval in respect of such transactions for a period until 31 December 2009, provided that (i) the Directors shall undertake that the Company will comply with the applicable requirements under Chapter 14A of the Listing Rules in the three years ending 31 December 2009; and (ii) the total amount of each non-exempt continuing connected transaction for each financial year shall not exceed the relevant annual cap.

1) Products Sales and Purchase Agreements

Date of agreements:	**3 November 2007**
Parties:	• CNHTC • the Company
Term:	3 years from 1 November 2007
Objective:	Products Sales Agreement: the Group will supply products, including trucks, chassis and semi-tractor trucks to CNHTC (including its associates) Products Purchases Agreement: CNHTC Limited (including its associates) will sell products include refitted trucks to the Group
Consideration:	(a) the prices proposed by the PRC government; or (b) if there are no prices proposed by the PRC government, the market price or cost with a reasonable margin
Annual cap for the year ended 31 December 2007:	Products Sales Agreement: RMB640,000,000 Products Purchases Agreement: RMB594,000,000
Actual consideration for the year ended 31December 2007:	Products Sales Agreement: RMB523,927,000 Products Purchase Agreement: RMB505,468,000

2) **Mutual Supply Agreements**

Date of agreements:	**3 November 2007**
Parties:	• CNHTC • the Company
Term:	3 years from 1 November 2007
Objective:	Parts Supply Agreement: the Group will supply raw materials, parts and components and semi-finished products to CNHTC (including its associates) Parts Purchase Agreement: CNHTC (including its associates) will provide to the Group) raw materials, parts and components and semi-finished products
Consideration:	(a) the prices proposed by the PRC government; or (b) if there are no prices proposed by the PRC government, the market price or cost with a reasonable margin
Annual cap for the year ended 31 December 2007:	Parts Purchase Agreement: RMB165,000,000 Parts Supply Agreement: RMB782,000,000
Actual consideration for the year ended 31 December 2007:	Parts Purchase Agreement: RMB148,486,000 Parts Supply Agreement: RMB806,941,000

3) General Services Purchase Agreement

Date of agreement:	**3 November 2007**
Parties:	• CNHTC • the Company
Term:	3 years from 1 November 2007
Objective:	CNHTC (including its associates) will continue to provide services such as property management, transportation, staff training, medical services and products testing and improvement services to the Group
Consideration:	(a) the prices proposed by the PRC government; or (b) if there are no prices proposed by the PRC government, the market price or cost with a reasonable margin
Annual cap for the year ended 31 December 2007:	RMB109,000,000
Actual consideration for the year ended 31 December 2007:	RMB79,548,000

4) Leasing Agreements

Date of agreements:	**3 November 2007**
Parties:	• CNHTC or its associates • subsidiaries of the Company
Term:	ranges from 3 months to 3 years
Objective:	(a) to lease from CNHTC (including its associates) for production, offices, sale services, research and development purposes (b) to lease to CNHTC (including its associates) for offices and production purposes
Consideration:	(a) the prices proposed by the PRC government; or (b) if there are no prices proposed by the PRC government, the market price or cost with a reasonable margin
Annual cap for the year ended 31 December 2007:	(a) RMB23,548,000 (b) RMB3,830,000
Actual consideration for the year ended 31 December 2007	(a) RMB21,880,000 (b) RMB2,406,000

Save for the sale of parts, components and half-finished products to CNHTC (including its associates) under the Parts Supply Agreement, which exceeded the 2007 annual cap for such transactions by approximately RMB24,941,000, other connected transactions above did not exceed the relevant annual cap amounts.

As the value of sale of parts, components and half-finished products under the Parts Supply Agreement exceeded the relevant annual cap for the year 2007 and in view of the Group's growing business, the Directors proposed the revised annual caps for transactions under the Parts Supply Agreement, the Products Sales Agreement and the Products Purchase Agreement, details of which are set out in the announcement of the Company dated 22 April 2008. The Company will seek approval from its independent shareholders in this regard.

The Directors (including the independent non-executive Directors) have reviewed the continuing connected transactions of the Company and confirmed that they were:

i. entered into in the ordinary and normal course of business of the Group;

ii. on normal commercial terms; and

iii. entered into in accordance with the relevant agreements regulating these transactions and on terms that are reasonable and fair and in the interests of the shareholders of the Company.

Pursuant to Rule 14A.38 of the Listing Rules, the Board has appointed the auditor of the Company to carry out certain procedures on the above continuing connected transactions on the sample basis in accordance with the Hong Kong Standard on Related Services 4400: "Engagements to Perform Agreed-Upon Procedures Regarding Financial Information" promulgated by the Hong Kong Institute of Certified Public Accountants. The auditor has truthfully reported the results of examination to the Board.

Pricewaterhouse Coopers, the auditor of the Company has provided a letter to the Board in respect of the continuing connected transactions for the year ended December 2007 and confirmed:

i. the continuing connected transactions have been approved by the Board of the Company;

ii. the pricing of the transactions, on a sample basis, were in accordance with the pricing policy of the Company;

iii. the transactions, on a sample basis, were entered into in accordance with the relevant agreements regulating these continuing connected transactions; and

iv. save for the sales of parts to the connected party under the Parts Supply Agreement, which exceeded the 2007 annual cap for such transaction by approximately RMB 24,941,000, the value of other continuing connected transactions did not exceed the relevant cap as set out in the Prospectus.

COMPLIANCE WITH THE CODE ON CORPORATE GOVERNANCE PRACTICES

During the year under review, the Company has been in compliance with the Code on Corporate Governance Practices set out in Appendix 14 of the Listing Rules.

SUFFICIENCY OF PUBLIC FLOAT

Based on the public information available to the Company, and as known to the directors of the Company, as at the bulk printing date of this report, the Company has maintained sufficient public float in accordance with Listing Rules.

AUDITOR

PricewaterhouseCoopers will retire at the forthcoming annual general meeting of the Company and a resolution for its reappointment will be proposed at the said meeting.

By order of the Board

Chairman

Beijing, 18 April 2008

Independent Auditor's Report

PRICEWATERHOUSECOOPERS

羅兵咸永道會計師事務所

PricewaterhouseCoopers
22/F, Prince's Building
Central, Hong Kong

To the shareholders of Sinotruk (Hong Kong) Limited
(incorporated in Hong Kong with limited liability)

We have audited the consolidated financial statements of Sinotruk (Hong Kong) Limited (the "Company") and its subsidiaries (together, the "Group") set out on pages 45 to 130, which comprise the consolidated and company balance sheets as at 31 December 2007, and the consolidated income statement, the consolidated statement of changes in equity and the consolidated cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

DIRECTORS' RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

The directors of the Company are responsible for the preparation and the true and fair presentation of these consolidated financial statements in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants, and the Hong Kong Companies Ordinance. This responsibility includes designing, implementing and maintaining internal control relevant to the preparation and the true and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

AUDITOR'S RESPONSIBILITY

Our responsibility is to express an opinion on these consolidated financial statements based on our audit and to report our opinion solely to you, as a body, in accordance with section 141 of the Hong Kong Companies Ordinance and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the content of this report.

We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance as to whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and true and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

OPINION

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 31 December 2007 and of the Group's profit and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the Hong Kong Companies Ordinance.

PricewaterhouseCoopers
Certified Public Accountants

Hong Kong, 18 April 2008

Consolidated Balance Sheet

As at 31 December 2007
(All amounts in Renminbi ("RMB") thousands unless otherwise stated)

	Note	As at 31 December 2007	2006
ASSETS			
Non-current assets			
Land use rights	6	319,204	240,087
Property, plant and equipment	7	4,187,580	2,647,734
Intangible assets	8	5,901	7,107
Deferred income tax assets	18	203,426	195,806
		4,716,111	3,090,734
Current assets			
Inventories	10	4,247,745	2,610,398
Trade and other receivables	9	2,856,879	4,097,569
Discounted bills	11	—	474,700
Amounts due from related parties	36	169,645	96,311
Restricted cash	12	2,098,057	2,846,374
Cash and cash equivalents	13	10,077,093	2,321,902
		19,449,419	12,447,254
Total assets		24,165,530	15,537,988
EQUITY			
Capital and reserves attributable to the Company's equity holders			
Share capital	14	219,648	146,154
Statutory reserves	14	219,314	67,820
Capital reserves	14	8,003,901	(768,349)
Merger reserve	14	1,045,473	950,723
Translation reserve		(4,871)	(1,339)
Retained earnings		1,503,614	545,923
		10,987,079	940,932
Minority interests		916,228	644,101
Total equity		11,903,307	1,585,033

Consolidated Balance Sheet

As at 31 December 2007
(All amounts in RMB thousands unless otherwise stated)

	Note	As at 31 December 2007	2006
LIABILITIES			
Non-current liabilities			
Borrowings	17	924,427	407,373
Termination benefits, post-employment benefits and medical insurance plan	19	81,550	99,090
		1,005,977	506,463
Current liabilities			
Trade and other payables	16	6,579,546	3,673,797
Current income tax liabilities	25	41,632	132,133
Borrowings	17	4,457,188	7,775,557
Amounts due to related parties	36	25,254	1,794,610
Provisions for other liabilities	20	152,626	70,395
		11,256,246	13,446,492
Total liabilities		12,262,223	13,952,955
Total equity and liabilities		24,165,530	15,537,988
Net current assets/(liabilities)		8,193,173	(999,238)
Total assets less current liabilities		12,909,284	2,091,496

Director

Director

The notes on page 51 to 130 are an integral part of these consolidated financial statements.

Company Balance Sheet

As at 31 December 2007
(All amounts in RMB thousands unless otherwise stated)

	Note	As at 31 December 2007
ASSETS		
Non-current assets		
Land use rights	6	16,459
Property, plant and equipment	7	815
Intangible assets		6
Investments in subsidiaries	35	4,383,152
		4,400,432
Current assets		
Amounts due from related parties		4,682
Dividends receivable		210,000
Other receivables		17,275
Cash and cash equivalents	13	7,551,672
		7,783,629
Total assets		12,184,061
EQUITY		
Capital and reserves attributable to the Company's equity holders		
Share capital	14(a)	219,648
Share premium	14(a)	11,727,145
Retained earnings		165,291
Total equity		12,112,084
LIABILITIES		
Current liabilities		
Amounts due to subsidiaries		52,586
Other payables		19,391
Total liabilities		71,977
Total equity and liabilities		12,184,061
Net current assets		7,711,652
Total assets less current liabilities		12,112,084

Director　　　　Director

The notes on page 51 to 130 are an integral part of these consolidated financial statements.

Consolidated Income Statement - By function of expense

For the year ended 31 December 2007
(All amounts in RMB thousands unless otherwise stated)

	Note	2007	2006
		Year ended 31 December	
Turnover	5	21,297,372	12,767,450
Cost of sales	22	(17,394,852)	(10,529,568)
Gross profit		3,902,520	2,237,882
Distribution costs	22	(1,141,364)	(649,904)
Administrative expenses	22	(806,190)	(638,673)
Other (losses)/gains - net	21	(18,058)	372,555
Operating profit		1,936,908	1,321,860
Finance income		173,180	124,233
Finance costs		(221,324)	(259,435)
Finance costs - net	24	(48,144)	(135,202)
Profit before income tax		1,888,764	1,186,658
Income tax expense	25	(500,806)	(406,775)
Profit for the year		1,387,958	779,883
Attributable to:			
Equity holders of the Company	27	1,109,185	638,465
Minority interests		278,773	141,418
		1,387,958	779,883
Earnings per share for profit attributable to the equity holders of the Company during the year			
(expressed in RMB per share)			
– basic and diluted	28	0.71	0.43
Dividends	29		
Dividends paid to equity holders of the Company		—	(60,918)
Dividends paid to minority interests		(5,267)	(1,749)
Dividends, proposed		(145,112)	—

The notes on page 51 to 130 are an integral part of these consolidated financial statements.

Consolidated Statement of Changes in Equity

For the year ended 31 December 2007
(All amounts in RMB thousands unless otherwise stated)

	Attributable to equity holders of the Group								
	Share capital (14(a))	Statutory reserves (14(b))	Capital reserves (14(c))	Merger reserve (14(h))	Translation reserve	(Accumulated losses)/ Retained earnings	Total	Minority interests	Total equity
Balance at 1 January 2006	146,154	22,481	(186,971)	830,426	(188)	(2,618,081)	(1,806,179)	403,566	(1,402,613)
Profit for the year	–	–	–	–	–	638,465	638,465	141,418	779,883
Appropriation to reserves	–	60,149	–	–	–	(60,149)	–	–	–
Exchange differences arising on translation of the financial statements of a subsidiary	–	–	–	–	(2,271)	–	(2,271)	(602)	(2,873)
Income tax borne by equity holder (Note 14(d))	–	–	–	–	–	183,871	183,871	–	183,871
Dividends (Note 29)	–	–	–	–	–	(60,918)	(60,918)	(1,749)	(62,667)
Transfer of assets and liabilities to CNHTC (Note 33)	–	–	2,101,732	–	–	–	2,101,732	17,906	2,119,638
Effect of the establishment of Ji'nan Power and Hangzhou Auto Engine and transfer of business and related assets of CNHTC to Ji'nan Power and Hangzhou Auto Engine (Note 1(b)(1))	–	(14,810)	(2,569,342)	120,297	1,120	2,462,735	–	–	–
Shares surrendered to minority shareholders (Note 14(e))	–	–	(45,026)	–	–	–	(45,026)	45,026	–
Capital injections to a subsidiary (Note 14(f))	–	–	(36,583)	–	–	–	(36,583)	36,583	–
Distributions to equity holder (Note 14(g))	–	–	(32,159)	–	–	–	(32,159)	1,953	(30,206)
Balance at 31 December 2006	146,154	67,820	(768,349)	950,723	(1,339)	545,923	940,932	644,101	1,585,033
Balance at 1 January 2007	146,154	67,820	(768,349)	950,723	(1,339)	545,923	940,932	644,101	1,585,033
Profit for the year	–	–	–	–	–	1,109,185	1,109,185	278,773	1,387,958
Appropriation to reserves	–	151,494	–	–	–	(151,494)	–	–	–
Exchange differences arising on translation of the financial statements of a subsidiary	–	–	–	–	(3,532)	–	(3,532)	(1,379)	(4,911)
Change of registered capital of a subsidiary	–	–	(94,750)	94,750	–	–	–	–	–
Issue of new shares	73,494	–	9,392,581	–	–	–	9,466,075	–	9,466,075
Share issue expenses	–	–	(525,581)	–	–	–	(525,581)	–	(525,581)
Dividends (Note 29)	–	–	–	–	–	–	–	(5,267)	(5,267)
Balance at 31 December 2007	219,648	219,314	8,003,901	1,045,473	(4,871)	1,503,614	10,987,079	916,228	11,903,307

The notes on page 51 to 130 are an integral part of these consolidated financial statements.

Consolidated Cash Flow Statement

For the year ended 31 December 2007
(All amounts in RMB thousands unless otherwise stated)

	Note	Year ended 31 December 2007	2006
Cash flows from operating activities			
Cash generated from operations	30	2,049,488	2,290,206
Interest paid		(215,643)	(108,662)
Income tax paid		(598,925)	(54,698)
Net cash generated from operating activities		1,234,920	2,126,846
Cash flows from investing activities			
Acquisition of business unit, net of cash acquired	34	(152,628)	—
Purchase of property, plant and equipment		(1,248,911)	(1,345,359)
Proceeds from sale of property, plant and equipment	30	8,729	13,875
Purchase of intangible assets		(731)	(97)
Prepaid operating lease payments for land use rights		(85,138)	(51,708)
Interest received		157,427	137,985
Net cash used in investing activities		(1,321,252)	(1,245,304)
Cash flows from financing activities			
Decrease in restricted cash		911,446	1,206,336
Proceeds from borrowings		6,069,639	7,114,855
Repayments of borrowings		(8,007,507)	(8,254,283)
Proceeds from issue of ordinary shares		9,466,075	—
Distribution to equity holder		—	(71,974)
Transfer of assets and liabilities to the Parent Company	33	—	(58,828)
Dividends paid to minority interests	29	(3,909)	(1,749)
Share issue expenses		(491,785)	(18,090)
Net cash generated from/(used in) financing activities		7,943,959	(83,733)
Net increase in cash and cash equivalents		7,857,627	797,809
Cash and cash equivalents at beginning of the year	13	2,321,902	1,527,594
Exchange losses on cash and cash equivalents		(102,436)	(3,501)
Cash and cash equivalents at end of the year	13	10,077,093	2,321,902

The notes on page 51 to 130 are an integral part of these consolidated financial statements.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2007
(All amounts in RMB thousands unless otherwise stated)

1. ORGANISATION AND PRINCIPAL ACTIVITIES

(a) General information of the Group

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 "Prospectus").

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 "Listing Business"). 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.

(b) Reorganisation and formation of the Group

The Reorganisation was carried out as follows:

(1) Sinotruk Ji'nan Power Company Limited ("Ji'nan Power") and Sinotruk Hangzhou Engine Company Limited ("Hangzhou Auto Engine"), a subsidiary of Ji'nan Power, were established in the People's Republic of China on 27 April 2006 and 30 April 2006, respectively, which were wholly owned by China National Heavy Duty Truck Group Company Limited ("CNHTC" or the "ultimate parent company"). On 30 June 2006, two operating units of CNHTC engaged in the Listing Business transferred their businesses and related assets and liabilities to Ji'nan Power and Hangzhou Auto Engine, respectively, as part of the Reorganisation.

(2) China National Heavy Duty Truck Group Design Institute and Chongqing Oil Pumps and Nozzle Products Factory, the two then operating units of CNHTC, were restructured on 11 June 2006 and 28 June 2006, respectively, to become Sinotruk Factory Design Institute Company Limited ("Sinotruk Design Institute") and Sinotruk Chongqing Fuel System Company Limited ("Sinotruk Chongqing Fuel System"), both are limited liability companies wholly owned by CNHTC. Businesses previously carried out by the two operating units were continuously operated by Sinotruk Design Institute and Sinotruk Chongqing Fuel System, respectively.

(3) On 30 June 2006, CNHTC transferred the equity interests in certain then subsidiary companies which are principally engaged in the Listing Business to Ji'nan Power;

(4) Certain assets and liabilities of companies now comprising the Group were transferred to CNHTC with effect on 30 June 2006. Details of the transfer were set out in Note 33.

(5) On 31 January 2007, Sinotruk (BVI) Limited ("Sinotruk BVI"), a company incorporated in the British Virgin Islands and wholly owned by CNHTC, acquired (i) the equity interests in Ji'nan Power and; (ii) the equity interests in other companies principally engaged in the Listing Business from CNHTC (collectively the "Operating Companies").

1. ORGANISATION AND PRINCIPAL ACTIVITIES (Continued)

(b) Reorganisation and formation of the Group (Continued)

(6) Other CNHTC group companies and businesses (the "Retained Operations"), which were not acquired by Sinotruk BVI and are retained by CNHTC, represented:

(i) companies and divisions engaged in the manufacturing and sale of specialty vehicles and passenger cars, and the related assets and liabilities of the aforementioned operations.

(ii) equity interests in certain companies not strategically complementary to the Group's business, which mainly represented companies engaged in property development and the provision of loan guarantee services.

(iii) auxiliary facilities such as schools and hospitals.

Pursuant to an asset injection agreement between CNHTC and Sinotruk BVI dated 2 April 2007, the Company acquired the equity interests in the Operating Companies from Sinotruk BVI through a share swap, and became the holding company of the companies now comprising the Group.

Following completion of the global offering, the Company's shares were listed on The Stock Exchange of Hong Kong Limited on 28 November 2008 (the "Listing").

These consolidated financial statements have been approved for issue by the Board on 18 April 2008.

2. PRINCIPAL ACCOUNTING POLICIES

The principal accounting policies applied in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

(a) Basis of preparation

The Group resulting from the Reorganisation referred in Note 1 above is regarded as a continuing entity. Accordingly, the consolidated financial statements, 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 years ended 31 December 2006 and 2007 presented.

2. PRINCIPAL ACCOUNTING POLICIES (Continued)

(a) Basis of preparation (Continued)

These consolidated financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRS") issued by the HKICPA. The consolidated financial statements have been prepared under the historical cost convention.

The preparation of financial statements in conformity with HKFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements, are disclosed in Note 4.

(1) Standards, amendments and interpretations effective in 2007

- HKFRS 7, "Financial instruments: Disclosure", and the complementary amendments to HKAS 1 "Presentation of financial statements - Capital disclosures", introduce new disclosures relating to financial instruments. This standard does not have any impact and valuation of the Group's financial instruments, but require additional disclosures in relation to the Group's financial instruments. The main additional disclosures include certain quantitative information of the Group's exposure to credit risk, liquidity risk and market risk, as well as qualitative information of the Group's capital risk management.

- HK(IFRIC)-Int 8, "Scope of HKFRS 2", requires consideration of transactions involving the issuance of equity instruments, where the identifiable consideration received is less than the fair value of the equity instruments issued in order to establish whether or not they fall within the scope of HKFRS 2. This interpretation does not have any impact on the Group's consolidated financial statements.

- HK(IFRIC)-Int 10, "Interim financial reporting and impairment", prohibits the impairment losses recognised in an interim period on goodwill and investments in equity instruments and in financial assets carried at cost to be reversed at a subsequent balance sheet date. This interpretation does not have any significant impact on the Group's consolidated financial statements.

(2) Interpretations to standards effective in 2007 but not relevant

The following interpretations to published standards are mandatory for accounting periods beginning on or after 1 January 2007 but they are not relevant to the Group's operations:

- HK(IFRIC)-Int 7, "Applying the restatement approach under HKAS 29, Financial reporting in hyper-inflationary economies".

- HK(IFRIC)-Int 9, "Reassessment of embedded derivatives".

2. PRINCIPAL ACCOUNTING POLICIES (Continued)

(a) Basis of preparation (Continued)

(3) New standards, amendments and interpretations to existing standards that are not yet effective and have not been early adopted by the Group.

As at 31 December 2007, the following new standards, amendments and interpretations had been published and are mandatory for the Group's accounting periods beginning on or after 1 January 2008 or later periods, but the Group has not early adopted these standards, amendments and interpretations:

HKAS 1 (Revised), "Presentation of Financial Statements" (effective from 1 January 2009). HKAS 1 (Revised) requires all owner changes in equity to be presented in a statement of changes in equity. All comprehensive income is presented in one statement of comprehensive income or in two statements (a separate income statement and a statement of comprehensive income). It requires presenting a statement of financial position as at the beginning of the earliest comparative period in a complete set of financial statements when there are retrospective adjustments or reclassification adjustments. However, it does not change the recognition, measurement or disclosure of specific transactions and other events required by other HKFRSs. The Group will apply HKAS 1 (Revised) from 1 January 2009.

HKFRS 8, Operating Segments (effective from 1 January 2009). This standard supersedes Hong Kong Accounting Standard ("HKAS") 14 Segment Reporting, under which segments were identified and reported on risk and return analysis. Items were reported on the accounting policies used for external reporting. Under HKFRS 8, segments are components of an entity regularly reviewed by an entity's chief operating decision-maker. Items are reported based on the internal reporting. It is not expected to have material impact on the Group's financial statements.

HK(IFRIC)-Int 14, HKAS 19 – The limit on a defined benefit asset, minimum funding requirements and their interaction (effective from 1 January 2008). HK(IFRIC)-Int 14 provides guidance on assessing the limit in HKAS 19 on the amount of the surplus that can be recognised as an asset. It also explains how the pension asset or liability may be affected by a statutory or contractual minimum funding requirement. The Group will apply HK(IFRIC)-Int 14 from 1 January 2008, but it is not expected to have any impact on the Group's financial statements.

HKAS 23 (Amended), Borrowing Costs (effective from 1 January 2009). The amendment removes the option to expense borrowing costs, and requires management to capitalise borrowing costs attributable to qualifying assets. The amendment only applies to qualifying assets measured at cost and excludes inventories that are routinely manufactured, or otherwise produced in large quantities on a repetitive basis. It is not expected to have material impact on the Group's financial statements.

2. PRINCIPAL ACCOUNTING POLICIES (Continued)

(a) Basis of preparation (Continued)

(3) New standards, amendments and interpretations to existing standards that are not yet effective and have not been early adopted by the Group. (Continued)

HKAS 27, (Revised) "Consolidated and Separate Financial Statements" (effective from annual period beginning on or after 1 July 2009). The amendment requires non-controlling interests (i.e. minority interests) to be presented in the consolidated statement of financial position within equity, separately from the equity of the owners of the parent. Total comprehensive income must be attributed to the owners of the parent and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance. Changes in a parent's ownership interest in a subsidiary that do not result in the loss of control are accounted for within equity. When control of a subsidiary is lost, the assets and liabilities and related equity components of the former subsidiary are derecognised. Any gain or loss is recognised in profit or loss. Any investment retained in the former subsidiary is measured at its fair value at the date when control is lost. The Group will apply HKAS 27 (Revised) from 1 January 2010.

HKFRS 3, (Revised) "Business Combination" (effective for business combinations with acquisition date on or after the beginning of the first annual reporting period beginning on or after 1 July 2009). The amendment may bring more transactions into acquisition accounting as combinations by contract alone and combinations of mutual entities are brought into the scope of the standard and the definition of a business has been amended slightly. It now states that the elements are 'capable of being conducted' rather than 'are conducted and managed'. It requires considerations (including contingent consideration), each identifiable asset and liability to be measured at its acquisition-date fair value, except leases and insurance contracts, reacquired right, indemnification assets as well as some assets and liabilities required to be measured in accordance with other HKFRSs. They are income taxes, employee benefits, share-based payment and non current assets held for sale and discontinued operations. Any non-controlling interest in an acquiree is measured either at fair value or at the non-controlling interest's proportionate share of the acquiree's net identifiable assets. The Group will apply HKFRS 3 (Revised) from 1 January 2010.

(4) New standards, amendments and interpretations to existing standards that are not yet effective and not relevant for the Group's operations.

The following standards, amendments and interpretations to existing standards have been published and are mandatory for the Group's accounting periods beginning on or after 1 January 2008 or later periods but are not relevant for the Group's operations:

HK(IFRIC)-Int 11, HKFRS-2 Group and Treasury Share Transactions (effective for annual periods beginning on or after 1 March 2007). This standard is not relevant to the Group's operations.

HK(IFRIC)-Int 12, Service Concession Arrangements (effective from 1 January 2008). This standard is not relevant to the Group's operations.

HK(IFRIC)-Int 13, Customer loyalty programmes (effective from 1 January 2008). HK(IFRIC)-Int 13 clarifies that where goods or services are sold together with a customer loyalty incentive (for example, loyalty points or free products), the arrangement is a multiple-element arrangement and the consideration receivable from the customer is allocated between the components of the arrangement in using fair values. HK(IFRIC)-Int 13 is not relevant to the Group's operations because none of the Group's companies operate any loyalty programmes.

2. PRINCIPAL ACCOUNTING POLICIES (Continued)

(b) Merger accounting and consolidation

The consolidated financial statements incorporate the financial statements of the Company and its subsidiaries made up to 31 December 2007, in which the common control combination occurs as if they had been combined from the date when the combining entities or businesses first came under the control of the controlling party.

The net assets of the combining entities or businesses are combined using the existing book values from the controlling parties' perspective. No amount is recognised in consideration for goodwill or excess of acquirers' interest in the net fair value of acquiree's identifiable assets, liabilities and contingent liabilities over cost at the time of common control combination, to the extent of the continuation of the controlling party's interest.

The consolidated income statement includes the results of each of the combining entities or businesses from the earliest date presented or since the date when the combining entities or businesses first came under the common control, where there is a shorter period, regardless of the date of the common control combination.

The comparative amounts in the consolidated financial statements are presented as if the entities or businesses had been combined at the previous balance sheet date or when they first came under common control, whichever is shorter.

A uniform set of accounting policies is adopted by those entities. All intra-group transactions, balances and unrealised gains on transactions between combining entities or businesses are eliminated on consolidation.

2. PRINCIPAL ACCOUNTING POLICIES (Continued)

(b) Merger accounting and consolidation (Continued)

(i) Subsidiaries

Subsidiaries are entities (including special purpose entities) over which the Group has the power to govern the financial and operating policies generally accompanying a shareholding of more than one half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group controls another entity.

Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are de-consolidated from the date that control ceases.

Except for the Reorganisation which have been accounted for as a combination of businesses under common control in a manner similar to merger accounting as described above, the purchase method of accounting is used to account for the acquisition of subsidiaries by the Group. The cost of an acquisition is measured as the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the acquisition. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date, irrespective of the extent of any minority interests. The excess of the cost of acquisition over the fair value of the Group's share of the identifiable net assets acquired is recorded as goodwill. If the cost of acquisition is less than the fair value of the net assets of the subsidiary acquired, the difference is recognised directly in the consolidated income statement.

Inter-company transactions, balances and unrealised gains on transactions between group companies are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

In the Company's balance sheet the investments in subsidiaries are stated at cost less provision for impairment losses (Note 2(h)). The results of subsidiaries are accounted by the Company on the basis of dividend received and receivable.

(ii) Transactions in connection of the equity interests in subsidiaries with minority interests

The Group applies a policy of treating transactions in connection of the equity interests in subsidiaries with minority interests as transactions with equity owners of the Group. For purchases of a subsidiary company's equity interest not already owned by the Group from minority interests, the difference between any consideration paid and the relevant share of net assets of the subsidiary being acquired is recognised in equity. For disposals of a subsidiary's equity interests owned by the Group to minority interests, differences between any proceeds received and the relevant share of net assets of the subsidiary being disposed are also recognised in equity.

2. PRINCIPAL ACCOUNTING POLICIES (Continued)

(c) Segment reporting

A business segment is a group of assets and operations engaged in providing products or services that are subject to risks and returns that are different from those of other business segments. A geographical segment is engaged in providing products or services within a particular economic environment that are subject to risks and returns that are different from those of segments operating in other economic environments.

(d) Foreign currency translation

(i) Functional and presentation currency

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates (the "functional currency"). The consolidated financial statements are presented in Renminbi ("RMB"), which is the Company's functional and presentation currency.

(ii) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement.

Changes in the fair value of monetary securities denominated in foreign currency classified as available for sale are analysed between translation differences resulting from changes in the amortised cost of the security and other changes in the carrying amount of the security. Translation differences related to changes in the amortised cost are recognised in the income statement, and other changes in the carrying amount are recognised in equity.

Translation differences on non-monetary financial assets and liabilities are reported as part of the fair value gain or loss. Translation difference on non-monetary financial assets and liabilities such as equities held at fair value through profit or loss are recognised in the income statement as part of the fair value gain or loss. Translation differences on non-monetary financial assets such as equities classified as available for sale are included in the available-for-sale reserve in equity.

2. PRINCIPAL ACCOUNTING POLICIES (Continued)

(d) Foreign currency translation (Continued)

(iii) Group companies

The results and financial position of all the group entities (none of which has the currency of a hyper-inflationary economy) that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

(1) assets and liabilities for each balance sheet presented are translated at the closing rate at the date of that balance sheet;

(2) income and expenses for each income statement are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the dates of the transactions); and

(3) all resulting exchange differences are recognised as a separate component of equity.

On consolidation, exchange differences arising from the translation of the net investment in foreign operations, and of borrowings and other currency instruments designated as hedges of such investments, are taken to shareholders' equity. When a foreign operation is partially disposed of or sold, exchange differences that were recorded in equity are recognised in the income statement as part of the gain or loss on sale.

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the closing rate.

(e) Land use rights

The upfront prepayments made for such right are treated as prepayment for operating lease and recorded as land use rights, which are expensed in the income statement on a straight-line basis over the period of the rights or when there is impairment, the impairment is recognised in the income statement.

2. PRINCIPAL ACCOUNTING POLICIES (Continued)

(f) Property, plant and equipment

Property, plant and equipment are stated at historical cost less accumulated depreciation and accumulated impairment losses, if any. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognised. All other repairs and maintenance are charged in the income statement during the financial period in which they are incurred.

Depreciation is calculated using the straight-line method to allocate their costs less accumulated impairment loss to their residual values over their estimated useful lives, as follows:

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

Construction in progress represents buildings, plant and machinery under construction or pending installation and is stated at cost. Cost includes the costs of construction of buildings and costs of plant and machinery. No provision for depreciation is made on construction-in-progress until such time as the relevant assets are completed and ready for intended use. When the assets concerned are brought into use, the costs are transferred to relevant category within property, plant and equipment and depreciated in accordance with the policy as stated above.

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount (Note 2(h)).

Gains and losses on disposals are determined by comparing proceeds with carrying amount, and are recognised within other gains-net in the income statement.

2. PRINCIPAL ACCOUNTING POLICIES (Continued)

(g) Intangible assets

(i) Proprietary technology

Proprietary technology is initially recorded at cost and is amortised on a straight-line basis over its useful life of 8 years as stated in the contract.

(ii) Computer software

Acquired computer software licenses are capitalised on the basis of the costs incurred to acquire and bring to use the specific software. These costs are amortised over their estimated useful lives of 5 years.

(h) Impairment of investments in subsidiaries and non-financial assets

Assets that have an indefinite useful life or have not yet available for use are not subject to amortisation and are tested annually for impairment. Assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). Non-financial assets other than goodwill that suffered impairment are reviewed for possible reversal of the impairment at each reporting date.

(i) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for maturities greater than 12 months after the balance sheet date. These are classified as non-current assets.

Regular purchases and sales of loans and receivables are recognised on the trade-date - the date on which the Group commits to purchase or sell the asset. Loans and receivables are initially recognised at fair value plus transaction costs. Loans and receivables are derecognised when the rights to receive cash flows from the financial assets have expired or have been transferred and the Group has transferred substantially all risks and rewards of ownership. Loans and receivables are carried at amortised cost using the effective interest method.

The Group assesses at each balance sheet date whether there is objective evidence that loans and receivables are impaired (Note 2 (k)).

(j) Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined using the weighted average method. The cost of finished goods and work in progress comprises design costs, raw materials, direct labour, other direct costs and related production overheads (based on normal operating capacity). It excludes borrowing costs. Net realisable value is the estimated selling price in the ordinary course of business, less applicable variable selling expenses.

2. PRINCIPAL ACCOUNTING POLICIES (Continued)

(k) Trade and other receivables

Trade and other receivables are recognised initially at fair value and subsequently measured at amortised 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 the Group will not be able to collect all amounts due according to the original terms of the receivables. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation, and default or delinquency in payments 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 recognised in the consolidated income statement within administrative expenses. When a trade receivable is uncollectible, it is written off against the allowance account for trade receivables. Subsequent recoveries of amounts previously written off are credited against administrative expenses in the income statement.

(l) Cash and cash equivalents

Cash and cash equivalents include cash in hand, deposits held at call with banks, other short-term highly liquid investments with original maturities of three months or less, and bank overdrafts. Bank overdrafts are shown within borrowings in current liabilities on the balance sheet.

(m) Share capital

Ordinary shares are classified as equity.

Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds.

(n) Trade and other payables

Trade and other payables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method.

(o) Borrowings

Borrowings are recognised initially at fair value, net of transaction costs incurred.

Borrowings are subsequently stated at amortised cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognised in the income statement over the period of the borrowings using the effective interest method.

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the balance sheet date.

2. PRINCIPAL ACCOUNTING POLICIES (Continued)

(p) Borrowing costs

Borrowing costs incurred for the construction of any qualifying asset are capitalised during the period of time that is required to complete and prepare the asset for its intended use. Other borrowing costs are expensed.

(q) Current and deferred income tax

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the balance sheet date in the countries where the Company and its subsidiaries operate and generate taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation and establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. However, the deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the balance sheet date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

Deferred income tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

Deferred income tax is provided on temporary differences arising on investments in subsidiaries, except where the timing of the reversal of the temporary difference is controlled by the Group and it is probable that the temporary difference will not reverse in the foreseeable future.

2. PRINCIPAL ACCOUNTING POLICIES (Continued)

(r) Employee benefits

(i) Pension obligations

For staff in Mainland China:

The Group has both defined benefit and defined contribution plans. A defined contribution plan is a pension plan under which the Group pays contributions into a separate government fund. The Group has no legal or constructive obligations to pay further contributions if the fund does not hold sufficient assets to pay all employees the benefits relating to employee service in the current and prior periods. A defined benefit plan is a pension plan that is not a defined contribution plan. Typically, defined benefit plans define 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.

The liability recognised in the balance sheet in respect of defined benefit plans is the present value of the defined benefit obligation at the balance sheet date less the fair value of plan assets, together with adjustments for unrecognised 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 are denominated in the currency in which the benefits will be paid, and that have terms to maturity approximating to the terms of the related 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 recognised in the income statement over the employees' expected average remaining working lives.

Past-service costs are recognised immediately in income statement, unless the changes to the pension plan are conditional on the employees remaining in service for a specified period of time (the vesting period). In this case, the past-service costs are amortised on a straight-line basis over the vesting period.

For defined contribution plans, employees of the Group working in Mainland China are covered by various government-sponsored pension plans under which the employees are entitled to a monthly pension based on certain formulas. The relevant government agencies are responsible for the pension liability to these retired employees. The Group contributes on a monthly basis to these pension plans. Under these plans, the Group has no obligation for post-retirement benefits beyond the contributions made. The contributions are recognised as employee benefit expense when they are due. Prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction in the future payments is available.

2. PRINCIPAL ACCOUNTING POLICIES (Continued)

(r) Employee benefits (Continued)

(i) Pension obligations (Continued)

For staff in Hong Kong:

The Group operates a defined contribution Mandatory Provident Fund retirement benefits scheme (the "MPF Scheme") under the Mandatory Provident Fund Schemes Ordinance, for those employees who are eligible to participate in the MPF Scheme. Contributions are made based on a percentage of the employees' basic salaries and charged to the income statement as they become payable in accordance with the rules of the MPF Scheme. The assets of the MPF Scheme are held separately from those of the Group in an independently administered fund. The Group's employer contributions vest fully with the employees when contributed into the MPF Scheme, except for the Group's employer voluntary contributions, which are refunded to the Group when the employee leaves employment prior to the contributions vesting fully, in accordance with the rules of the MPF Scheme.

(ii) Termination benefits

Termination benefits are payable when employment is terminated by the Group before the normal retirement date, or whenever an employee accepts voluntary redundancy in exchange for these benefits. The Group recognises termination benefits when it is demonstrably committed to either terminating the employment of current employees according to a detailed formal plan without possibility of withdrawal, or providing termination benefits as a result of an offer made to encourage voluntary redundancy. Benefits falling due more than 12 months after balance sheet date are discounted to present value.

(iii) Other post-employment benefits

For employees who formally retired before 1 May 2002, the Group is committed to pay fixed contributions to these employees on a monthly basis. For employees who retired after 1 May 2002, the Group has no further payment obligations. The Group accounts for such post employment benefit costs by using the accounting basis similar to a defined benefit plan as disclosed above.

The Group entities operating in Ji'nan City have provided medical benefits to their employees joining the entities before 1 March 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 a defined benefit plan. 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 recognised in the income statement over the expected average remaining working lives of the related employees. These obligations are valued annually by independent qualified actuaries.

2. PRINCIPAL ACCOUNTING POLICIES (Continued)

(r) Employee benefits (Continued)

(iv) Housing funds

Full-time employees of the Group in Mainland China are entitled to participate in various government-supervised housing funds. The Group contributes on a monthly basis to these funds based on certain percentages of the salaries of the employees. The Group's liability in respect of these funds is limited to the contributions payable in each period.

(s) Provisions

Provisions are recognised when the Group has a present legal or constructive obligation as a result of past events; it is probable that an outflow of resources will be required to settle the obligation; and the amount has been reliably estimated. Provisions are not recognised for future operating losses.

Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognised even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to passage of time is recognised as interest expense.

(t) Government assistance and grants

Government assistance is action by government designed to provide an economic benefit specific to the Group. The government assistance which cannot reasonably have a value placed upon them and transactions with government which cannot be distinguished from the normal trading transactions of the Group are not recognised.

Grants from the government are recognised at their fair value where there is a reasonable assurance that the grant will be received and the Group will comply with all attached conditions.

Government grants relating to costs are deferred and recognised in the income statement over the period necessary to match them with the costs that they are intended to compensate.

Government grants relating to property, plant and equipment are included in non-current liabilities as deferred government grants and are credited to the income statement on a straight-line basis over the expected lives of the related assets.

2. PRINCIPAL ACCOUNTING POLICIES (Continued)

(u) Revenue recognition

Revenue comprises the fair value of the consideration received or receivable for the sale of goods and services in the ordinary course of the Group's activities. Revenue is shown net of value-added tax, returns, rebates and discounts and after eliminating sales within the Group.

The Group recognises revenue when the amount of revenue can be reliably measured, it is probable that future economic benefits will flow to the entity and specific criteria have been met for each of the Group's activities as described below. The amount of revenue is not considered to be reliably measurable until all contingencies relating to the sale have been resolved. The Group bases its estimates on historical results, taking into consideration the type of customer, the type of transaction and the specifics of each arrangement.

(i) Sales of goods

Revenue from the sales of goods are recognised when a group entity has delivered products to the customer, the customer has accepted the products, and there is no unfulfilled obligation that could affect the customer's acceptance of the products. Delivery normally does not occur until the products have been shipped to the specific location, the risks of obsolescence and loss have been transferred to the customer, and either the customer has accepted the products, or the Group has objective evidence that all criteria for acceptance have been satisfied.

(ii) Sales of services

Revenue from the sales of services are recognised in the accounting period in which the services are rendered, by reference to completion of the specific transaction assessed on the basis of the actual service provided as a proportion of the total services to be provided.

(iii) Interest income

Interest income is recognised on a time-proportion basis using the effective interest method. When a receivable is impaired, the Group reduces the carrying amount to its recoverable amount, being the estimated future cash flow discounted at original effective interest rate of the instrument, and continues unwinding the discount as interest income. Interest income on impaired loans is recognised using the original effective interest rate.

2. PRINCIPAL ACCOUNTING POLICIES (Continued)

(v) Operating leases

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases.

(a) As a lessee

Payments made under operating leases (net of any incentives received from the lessor) are charged to the income statement on a straight-line basis over the period of the lease.

(b) As a lessor

When assets are leased out under an operating lease, the asset is included in the balance sheet based on the nature of the asset.

Lease income is recognised over the term of the lease on a straight-line basis.

(w) Dividend distribution

Dividend distribution to the Company's shareholders is recognised as a liability in the Group's financial statements in the period in which the dividends are approved by the Company's shareholders.

(x) Sale and repurchase agreement

Loans sold subject to linked repurchase agreements with banks are retained in the financial statements as loans and receivables, as the Group retains controls of the contractual rights over these loans. The corresponding liability is included in borrowings.

2. PRINCIPAL ACCOUNTING POLICIES (Continued)

(y) Research and development

Research expenditure is recognised as an expense as incurred. Costs incurred on development projects (relating to the design and testing of new or improved products) are recognised as intangible assets when the following criteria are fulfilled:

(i) it is technically feasible to complete the intangible asset so that it will be available for use or sale;

(ii) management intends to complete the intangible asset and use or sell it;

(iii) there is an ability to use or sell the intangible asset;

(iv) it can be demonstrated how the intangible asset will generate probable future economic benefits;

(v) adequate technical, financial and other resources to complete the development and to use or sell the intangible asset are available; and

(vi) the expenditure attributable to the intangible asset during its development can be reliably measured.

Other development expenditures that do not meet these criteria are recognised as an expense as incurred. Development costs previously recognised as an expense are not recognised as an asset in a subsequent period. Capitalised development costs are recorded as intangible assets and amortised from the point at which the asset is ready for use on a straight-line basis over its useful life, not exceeding five years.

Development assets are tested for impairment annually, in accordance with HKAS 36.

(z) Contingent liabilities and contingent assets

A contingent liability is a possible obligation that arises from past events and whose existence will only be confirmed by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Group. It can also be a present obligation arising from past events that is not recognised because it is not probable that outflow of economic resources will be required or the amount of obligation cannot be measured reliably.

A contingent liability is not recognised but is disclosed in the notes to the financial statements. When a change in the probability of an outflow occurs so that outflow is probable, it will then be recognised as a provision.

A contingent asset is a possible asset that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain events not wholly within the control of the Group.

Contingent assets are not recognised but are disclosed in the notes to the financial statements when an inflow of economic benefits is probable. When inflow is virtually certain, an asset is recognised.

(aa) Financial guarantee liabilities

Financial guarantee liabilities are recognised initially at fair value plus transaction costs that are directly attributable to the issue of the financial guarantee contract. After initial recognition, such contracts are measured at the higher of the present value of the best estimate of the expenditure required to settle the present obligation and the amount initially recognised less cumulative amortisation.

3. FINANCIAL RISK MANAGEMENT

3.1 Financial risk factors

The Group's activities expose it to a variety of financial risks: market risk (including currency risk, fair value interest rate risk, cash flow interest rate risk), credit risk and liquidity risk. The Group's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Group's financial performance.

(i) Foreign exchange risk

The Group mainly operates in the PRC with most of the transactions denominated and settled in RMB. The major foreign exchange risk exposure arises from its exporting activities and the financing activities in Hong Kong. Accordingly, the Group has certain trade receivables, bank deposits, trade payables and borrowings denominated in foreign currencies, mainly USD, GBP, EURO and HK$, which are exposed to foreign currency translation risk. Details of the Group's maximum exposures to the foreign exchange risks are disclosed in Note 9, 13, 16 and 17 respectively.

During the year ended 31 December 2007 and 2006, the Group did not use any financial instruments to hedge the foreign exchange risk.

Considering the continuing increase of RMB rate against USD and HK$, the management aims to convert all proceeds from the global offering of the Company's shares into RMB as soon as possible, subject to the approval of relevant authorities governing foreign exchange. Up to 31 March 2008, total amount of HK$ 8,095,000,000 has already been remitted to the subsidiaries in PRC and converted into RMB subsequent to the balance sheet date. The management commit to continue its effort in converting the remaining amounts.

As at 31 December 2007, if RMB had strengthened/weakened by 6.46% against the USD with all other variables held constant, profit before income tax for the year would have been approximately RMB 8,999,000 (2006: RMB 8,397,000) lower/higher, mainly as a result of foreign exchange losses/gains on translation of USD-denominated trade receivables, cash and cash equivalents, trade payables and borrowings.

As at 31 December 2007, if RMB had strengthened/weakened by 3.90% against the EURO with all other variables held constant, profit before income tax for the year would have been approximately RMB 39,661,000 (2006: RMB 5,629,000) lower/higher, mainly as a result of foreign exchange losses/gains on translation of EURO-denominated cash and cash equivalents and trade receivables.

As at 31 December 2007, if RMB had strengthened/weakened by 4.85% against the GBP respectively with all other variables held constant, profit before income tax for the year would have been approximately RMB 28,000 (2006: RMB 37,000) lower/higher, mainly as a result of foreign exchange losses/gains on translation of GBP-denominated cash and cash equivalents.

As at 31 December 2007, if RMB had strengthened/weakened by 6.8%, against the HK$ respectively with all other variables held constant, profit before income tax for the year would have been approximately RMB 512,353,000 (2006: RMB 269,000) lower/higher, respectively, mainly as a result of foreign exchange losses/gains on translation of HK$-denominated trade receivables, cash and cash equivalents, trade payables and borrowings.

3. FINANCIAL RISK MANAGEMENT (Continued)

3.1 Financial risk factors (Continued)

(ii) Cash flow and fair value interest rate risk

The Group's operating income and operating cash flows are substantially independent of changes in market interest rates as the Group has no significant interest-bearing operating assets. The Group's exposure to changes in interest rates is mainly attributable to its bank deposits and borrowings. All bank deposits and certain borrowings bear variable rates and expose the Group to cash flow interest-rate risk. Borrowings issued at fixed rates expose the Group to fair value interest-rate risk. The maximum exposures to the interest rate risk have been disclosed in Note 13 and 17.

The Group has not used any derivatives to hedge its exposure to interest rate risks.

As at 31 December 2007, if the interest rates on bank borrowings had been 189 basis points (hereafter "bps") higher/lower than the actual primary rate 7.47% announced by PBOC with all other variables held constant, profit before income tax for the years would have been RMB 36,523,000 (2006: RMB 10,478,000) lower/higher, mainly as a result of higher/lower interest expense on floating rate of bank borrowings.

(iii) Credit risk

The Group has no significant concentrations of credit risk. The carrying amounts of cash and cash equivalents, trade receivables, and other receivables represent the Group's maximum exposure to credit risk in relation to financial assets. The Group generally requires customers to pay a certain amount of deposits when orders are made and settle full purchase price to the Group before delivery. Majority of the sales transactions are settled by cash, cheque, bank draft or cashier order. The Group also accepts bank acceptance notes with maturity within 6 months, which is accepted and settled by bank. For those long term relationship key customers, on some occasions the Group offered credit terms up to 90 days. The granting or extension of any credit period must be approved by the general manager of the Group. There is no recent history of material default in relation to those customers. For bank and financial institutions, the Group has policies that deposits are put in reputable banks.

(iv) Liquidity risk

The liquidity risk of the Group is controlled by maintaining sufficient cash and cash equivalents, together with adequate banking facilities.

The table below analyses the Group's financial liabilities into relevant maturity groupings based on the remaining period at the balance sheet to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows. Balances due within 12 months equal their carrying balances, as the impact of discounting is not significant.

(All amounts in RMB thousands unless otherwise stated)

3. FINANCIAL RISK MANAGEMENT (Continued)

3.1 Financial risk factors (Continued)

(iv) Liquidity risk (Continued)

	Repayment period					
As at 31 December 2007	Less than 1 year	Between 1 and 2 years	Between 2 and 3 years	Between 3 and 4 years	Between 4 and 5 years	Over 5 years
Borrowings	4,457,188	594,013	1,877	322,227	1,877	4,433
Interests payments on borrowings (a)	156,857	38,739	15,589	9,022	1,250	4,304
Trade and other payables (b)	5,672,307	–	–	–	–	–
	10,286,352	632,752	17,466	331,249	3,127	8,737

	Repayment period					
As at 31 December 2006	Less than 1 year	Between 1 and 2 years	Between 2 and 3 years	Between 3 and 4 years	Between 4 and 5 years	Over 5 years
Borrowings	7,775,557	60,416	–	–	1,205	345,752
Interests payments on borrowings (a)	36,437	4,805	3,604	2,403	1,201	–
Trade and other payables (b)	3,261,111	–	–	–	–	–
	11,073,105	65,221	3,604	2,403	2,406	345,752

(a) The interest on borrowings is calculated based on borrowings held as at 31 December 2006 and 2007 without taking into account of future issues. Floating-rate interest is estimated using current interest rate as at 31 December 2006 and 2007 respectively.

(b) Trade and other payables include trade and bills payables and other payables as stated in Note 16.

(All amounts in RMB thousands unless otherwise stated)

3. FINANCIAL RISK MANAGEMENT (Continued)

3.2 Capital risk management

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital.

In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares or sell assets to reduce debt.

Consistent with others in the industry, the Group monitors capital on the basis of the debt-to-equity ratio. This ratio is calculated as total borrowings divided by total capital. Total borrowings include current and non-current borrowings as shown in the consolidated balance sheet. The Group regards its borrowings and equity attributable to the Company's equity holders as its capital.

	As at 31 December 2007	As at 31 December 2006
Total borrowings	5,381,615	8,182,930
Equity attributable to the Company's equity holders	10,987,079	940,932
Debt-to-equity ratio	0.49	8.70

3.3 Fair value estimation

The fair value of financial instruments that are not traded in an active market is determined by using valuation techniques. The Group uses a variety of methods and makes assumptions that are based on market conditions existing at each balance sheet date.

The carrying amounts of the Group's financial assets including cash and cash equivalents, restricted cash balances, trade and other receivables, and financial liabilities including trade and other payables, and current borrowings, approximate their fair values due to their short maturities.

The fair value of financial liabilities for disclosure purposes is estimated by discounting the future contractual cash flows at the current market interest rate available to the Group for similar financial instruments.

4. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

4.1 Critical accounting estimates and assumptions

The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

(a) Current tax and deferred tax

The Group is subject to income taxes in various jurisdictions. 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. Where 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.

Deferred tax assets relating to certain temporary differences and tax losses are recognised as management considers it is probable that future taxable profit will be available against which the temporary differences or tax losses can be utilised. Where the expectation is different from the original estimate, such differences will impact the recognition of deferred tax assets and taxation in the periods in which such estimate is changed.

(b) Termination benefits and other post-employment benefits obligation

The valuation of the present value of termination benefits and other post-employment benefits obligation depends on a number of factors that are determined on an actuarial basis using a number of assumptions. Any changes in these assumptions will impact the carrying amount of pension obligations.

Key assumptions for pension obligations are based in part on current market conditions. Additional information is disclosed in Note 19.

(c) Warranty claims

The Group generally offers warranties with period from 6 months to 18 months for its trucks and engines. Management estimates 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 success of the Group's productivity and quality initiatives, as well as parts and labour costs.

4. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS (Continued)

4.2 Critical judgment in applying the Group's accounting policies

(a) Contingent liabilities in respect of legal claims

The Group has been involved in certain legal claims brought against the Group. Contingent liabilities arising from these claims have been assessed by management with reference to legal advice. Provisions on the possible obligation have been made based on management's best estimates and judgments.

5. SEGMENT INFORMATION

5.1 Primary reporting format – business segments

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 three 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.

Inter-segment sales are conducted at prices and terms mutually agreed amongst those business segments.

Operating expenses of a functional unit are allocated to the relevant segment which is the predominant user of the services provided by the unit. Operating expenses of other shared services which cannot be allocated to a specific segment and corporate expenses are included as unallocated costs.

Segment assets are those operating assets that are employed by a segment in its operating activities. Segment assets are determined after deducting related allowance that are reported as direct offsets in the balance sheet. Segment assets consist primarily of land use rights, property, plant and equipment, intangible assets, inventories, receivables and operating cash. They exclude deferred taxation.

Segment liabilities are those operating liabilities that result from the operating activities of a segment. Segment liabilities do not include borrowings and other liabilities that are incurred for financing rather than operating purpose unless the segment is engaged in financing activities. Segment liabilities do not include income tax liabilities.

Unallocated assets mainly represent deferred taxation and the assets of the Company. Unallocated liabilities mainly represent borrowings, current tax liabilities and the liabilities of the Company.

Capital expenditure comprises mainly additions to land use rights (Note 6), property, plant and equipment (Note 7), and intangible assets (Note 8), including additions resulting from acquisitions through business combinations.

(All amounts in RMB thousands unless otherwise stated)

5. SEGMENT INFORMATION (Continued)

5.1 Primary reporting format – business segments (Continued)

The segment results for the year ended 31 December 2007 are as follows:

	Trucks	Engines	Finance	Others	Elimination	Total
Turnover						
External segment revenue	20,049,435	1,232,764	13,424	1,749	—	21,297,372
Inter-segment revenue	109,273	4,094,540	88,619	57,709	(4,350,141)	—
Revenue	20,158,708	5,327,304	102,043	59,458	(4,350,141)	21,297,372
Operating profit/(loss) before unallocated corporate expenses	1,736,203	614,706	46,784	(62,092)	(277,315)	2,058,286
Unallocated corporate expenses						(121,378)
Operating profit						1,936,908
Finance costs – net (Note 24)						(48,144)
Profit before income tax						1,888,764
Income tax expense						(500,806)
Profit for the year						1,387,958

For the year ended 31 December 2007
(All amounts in RMB thousands unless otherwise stated)

5. SEGMENT INFORMATION (Continued)

5.1 Primary reporting format – business segments (Continued)

The segment results for the year ended 31 December 2006 are as follows:

	Trucks	Engines	Finance	Others	Elimination	Total
Turnover						
External segment revenue	11,982,650	731,567	50,265	2,968	—	12,767,450
Inter-segment revenue	68,366	2,382,684	94,098	46,631	(2,591,779)	—
Revenue	12,051,016	3,114,251	144,363	49,599	(2,591,779)	12,767,450
Operating profit/(loss) before unallocated corporate expenses	1,359,852	244,295	44,826	(7,060)	(166,438)	1,475,475
Unallocated corporate expenses						(153,615)
Operating profit						1,321,860
Finance costs – net (Note 24)						(135,202)
Profit before income tax						1,186,658
Income tax expense						(406,775)
Profit for the year						779,883

Other segment items included in the income statement for the year ended 31 December 2007 are as follows:

	Trucks	Engines	Finance	Others	Unallocated	Total
Depreciation (Note 7)	98,941	113,659	734	13,489	3,659	230,482
Amortisation of intangible assets (Note 8) and land use rights (Note 6)	3,399	4,524	8	19	8	7,958

(All amounts in RMB thousands unless otherwise stated)

5. SEGMENT INFORMATION (Continued)

5.1 Primary reporting format – business segments (Continued)

Other segment items included in the income statement for the year ended 31 December 2006 are as follows:

	Trucks	Engines	Finance	Others	Unallocated	Total
Depreciation (Note 7)	91,160	108,346	787	13,864	11,888	226,045
Amortisation of intangible assets (Note 8) and land use rights (Note 6)	3,329	2,041	—	—	1,764	7,134

The segment assets and liabilities at 31 December 2007 and capital expenditure for the year then ended are as follows:

	Trucks	Engines	Finance	Others	Elimination	Total
Segment assets	14,343,807	3,079,257	1,321,021	222,848	(4,130,003)	14,836,930
Unallocated assets						9,328,600
Total assets						24,165,530
Segment liabilities	8,010,374	2,312,350	748,549	226,342	(3,072,678)	8,224,937
Unallocated liabilities						4,037,286
Total liabilities						12,262,223
Capital expenditure	753,023	1,096,581	1,159	15,202	—	1,865,965
Unallocated capital expenditure						1,356
Total capital expenditure						1,867,321

Segment assets and liabilities are reconciled to entity assets and liabilities as follows:

	Assets	Liabilities
Segment assets/liabilities	14,836,930	8,224,937
Unallocated:		
Deferred tax	203,426	—
Current tax	—	41,632
Current borrowings	—	3,372,188
Non-current borrowings	—	604,077
Assets/liabilities of the Company	9,125,174	19,389
Total	24,165,530	12,262,223

(All amounts in RMB thousands unless otherwise stated)

5. SEGMENT INFORMATION (Continued)

5.1 Primary reporting format – business segments (Continued)

The segment assets and liabilities at 31 December 2006 and capital expenditure for the year then ended are as follows:

	Trucks	Engines	Finance	Others	Elimination	Total
Segment assets	10,443,960	2,903,538	2,359,127	81,651	(3,145,715)	12,642,561
Unallocated assets						2,895,427
Total assets						15,537,988
Segment liabilities	2,990,837	2,073,570	1,814,909	32,181	(2,259,581)	4,651,916
Unallocated liabilities						9,301,039
Total liabilities						13,952,955
Capital expenditure	237,685	775,807	358	23,648	—	1,037,498
Unallocated capital expenditure						125,164
Total capital expenditure						1,162,662

Segment assets and liabilities are reconciled to entity assets and liabilities as follows:

	Assets	Liabilities
Segment assets/liabilities	12,642,561	4,651,916
Unallocated:		
Deferred tax	195,806	—
Current tax	—	131,906
Current borrowings	—	6,572,853
Non-current borrowings	—	61,623
Assets/liabilities of the Company	2,699,621	2,534,657
Total	15,537,988	13,952,955

(All amounts in RMB thousands unless otherwise stated)

5. SEGMENT INFORMATION (Continued)

5.2 Secondary reporting format – geographical segments

(a) Revenue

Revenue from external customers by geographical area is based on the geographical location of the customers.

Revenue is allocated based on the country in which the customer is located.

	2007	2006
Revenue		
Mainland China	17,115,631	11,204,734
Overseas	4,181,741	1,562,716
	21,297,372	12,767,450

Total assets are allocated based on where the assets are located.

	2007	2006
Total assets		
Mainland China	14,951,462	15,500,316
Hong Kong	9,214,068	37,672
	24,165,530	15,537,988

Capital expenditure is allocated based on where the assets are located.

	2007	2006
Capital expenditure		
Mainland China	1,823,245	1,162,660
Hong Kong	44,076	2
	1,867,321	1,162,662

(All amounts in RMB thousands unless otherwise stated)

6. LAND USE RIGHTS

Land in the Mainland China is state-owned or collectively-owned and no individual land ownership right exists. The Group has acquired the right to use certain land. Land use rights in the Mainland China represent the Group's interests in land which are held on leases between 38 to 50 years.

Land use rights in Hong Kong represent the Group's interests in two parcels of land which are held on leases of 48 to 877 years.

The location is as follows:

	Group		Company	
	2007	2006	2007	2006
In Hong Kong	39,922	—	16,459	—
Outside Hong Kong	279,282	240,087	—	—
	319,204	240,087	16,459	—

The movement is as follows:

	Group		Company	
	2007	2006	2007	2006
Opening net book amount	240,087	193,677	—	—
Additions	85,138	51,708	16,467	—
Amortisation charge (Note22)	(6,021)	(5,298)	(8)	—
Closing net book amount	319,204	240,087	16,459	—
Cost	331,743	246,605	16,467	—
Accumulated amortisation	(12,539)	(6,518)	(8)	—
Net book amount	319,204	240,087	16,459	—

Bank borrowings are secured on land use rights with the carrying amount of RMB 23,463,000 (2006: nil) (Note 17).

As at 31 December 2007, land use rights with the carrying amount of approximately RMB 16,459,000 are secured for the unused borrowing facilities.

(All amounts in RMB thousands unless otherwise stated)

7. PROPERTY, PLANT AND EQUIPMENT

The Group	Buildings	Machinery	Furniture, fittings & equipment	Vehicles	Construction -in-progress	Total
At 1 January 2006						
Cost	1,136,896	1,396,661	139,979	122,323	558,825	3,354,684
Accumulated depreciation	(224,263)	(701,002)	(78,259)	(61,705)	—	(1,065,229)
Net book amount	912,633	695,659	61,720	60,618	558,825	2,289,455
Year ended 31 December 2006						
Opening net book amount	912,633	695,659	61,720	60,618	558,825	2,289,455
Additions	49,432	70,775	10,159	10,101	970,390	1,110,857
Transfers	49,189	561,899	8,721	8,062	(627,871)	—
Disposals	(54,418)	(8,195)	(1,199)	(2,214)	—	(66,026)
Transfer to CNHTC resulting from the Reorganisation (Note 33)	(189,498)	(24,626)	—	(447)	(245,936)	(460,507)
Depreciation charge (Note 22)	(41,957)	(169,327)	(8,743)	(6,018)	—	(226,045)
Closing net book amount	725,381	1,126,185	70,658	70,102	655,408	2,647,734
At 31 December 2006						
Cost	872,635	2,010,379	108,823	130,399	655,408	3,777,644
Accumulated depreciation	(147,254)	(884,194)	(38,165)	(60,297)	—	(1,129,910)
Net book amount	725,381	1,126,185	70,658	70,102	655,408	2,647,734
Year ended 31 December 2007						
Opening net book amount	725,381	1,126,185	70,658	70,102	655,408	2,647,734
Acquisition of business unit (Note 34)	—	137,550	1,484	—	6,830	145,864
Other additions	62,836	40,020	17,620	12,506	1,502,607	1,635,589
Transfers	220,781	513,311	8,178	8,941	(751,211)	—
Disposals	(1,512)	(6,816)	(388)	(2,409)	—	(11,125)
Depreciation charge (Note 22)	(28,696)	(179,692)	(13,540)	(8,554)	—	(230,482)
Closing net book amount	978,790	1,630,558	84,012	80,586	1,413,634	4,187,580
At 31 December 2007						
Cost	1,153,814	2,664,394	135,402	143,535	1,413,634	5,510,779
Accumulated depreciation	(175,024)	(1,033,836)	(51,390)	(62,949)	—	(1,323,199)
Net book amount	978,790	1,630,558	84,012	80,586	1,413,634	4,187,580

(All amounts in RMB thousands unless otherwise stated)

7. PROPERTY, PLANT AND EQUIPMENT (Continued)

The Company	Buildings	Machinery	Furniture, fittings & equipment	Vehicles	Construction -in-progress	Total
At 1 January 2007						
Cost	—	—	—	—	—	—
Accumulated depreciation	—	—	—	—	—	—
Net book amount	—	—	—	—	—	—
Year ended 31 December 2007						
Opening net book amount	—	—	—	—	—	—
Additions	813	—	21	—	—	834
Depreciation charge	(17)	—	(2)	—	—	(19)
Closing net book amount	796	—	19	—	—	815
At 31 December 2007						
Cost	813	—	21	—	—	834
Accumulated depreciation	(17)	—	(2)	—	—	(19)
Net book amount	796	—	19	—	—	815

(a) Depreciation of the Group's property, plant and equipment has been charged to the income statement as follows:

	Group		Company	
	2007	2006	2007	2006
Cost of sales	188,725	186,220	—	—
Distribution costs	478	1,029	—	—
Administrative expenses	41,279	38,796	19	—
	230,482	226,045	19	—

(b) Bank borrowings are secured on property, plant and equipment for the value of approximately RMB 1,875,000 (2006: RMB 4,553,000) (Note 17).

As at 31 December 2007, property, plant and equipment with the carrying amount of approximately RMB 796,000 are secured for the unused borrowing facilities.

(All amounts in RMB thousands unless otherwise stated)

7. PROPERTY, PLANT AND EQUIPMENT (Continued)

(c) The borrowing costs capitalised into the cost of property, plant and equipment are as follows:

	Group		Company	
	2007	2006	2007	2006
Borrowing cost capitalised	1,326	7,869	—	—
Average capitalisation rate	5.86%	5.30%	—	—

8. INTANGIBLE ASSETS

Intangible assets mainly represent the cost of acquiring proprietary technology and computer software. The movement is as follows:

	Proprietary technology	Computer software	Total
At 1 January 2006			
Cost	10,982	1,736	12,718
Accumulated amortisation	(3,711)	(161)	(3,872)
Net book amount	7,271	1,575	8,846
Year ended 31 December 2006			
Opening net book amount	7,271	1,575	8,846
Additions	—	97	97
Amortisation charge (Note 22)	(1,437)	(399)	(1,836)
Closing net book amount	5,834	1,273	7,107
At 31 December 2006			
Cost	10,982	1,833	12,815
Accumulated amortisation	(5,148)	(560)	(5,708)
Net book amount	5,834	1,273	7,107

(All amounts in RMB thousands unless otherwise stated)

8. INTANGIBLE ASSETS (Continued)

Intangible assets mainly represent the cost of acquiring proprietary technology and computer software. The movement is as follows: (Continued)

	Proprietary technology	Computer software	Total
Year ended 31 December 2007			
Opening net book amount	5,834	1,273	7,107
Additions	—	731	731
Amortisation charge (Note 22)	(1,372)	(565)	(1,937)
Closing net book amount	4,462	1,439	5,901
At 31 December 2007			
Cost	10,982	2,564	13,546
Accumulated amortisation	(6,520)	(1,125)	(7,645)
Net book amount	4,462	1,439	5,901

(a) Amortisation of the Group's intangible assets has been charged to the income statement as follows:

	2007	2006
Cost of sales	1,372	1,437
Administrative expenses	565	399
	1,937	1,836

(b) Research expenditures and development expenditures that do not meet criteria for capitalisation are recognised as an expense as incurred. The total amount of expenses charged into the consolidated income statements is approximately RMB 109,626,000 (2006: RMB 93,679,000). No capitalised development costs were recorded as intangible assets during the year ended 31 December 2007 and 2006.

(All amounts in RMB thousands unless otherwise stated)

9. TRADE AND OTHER RECEIVABLES

	2007	2006
Accounts receivable	1,542,480	441,541
Less: Provision for impairment of accounts receivable	(24,585)	(23,949)
Accounts receivable – net	1,517,895	417,592
Notes receivable	699,922	3,325,306
Trade receivables-net	2,217,817	3,742,898
Other receivables	146,329	116,429
Less: Provision for impairment of other receivables	(4,007)	(5,574)
Other receivables-net	142,322	110,855
Prepayments	265,511	146,662
Interest receivables	37,449	21,696
Prepaid taxes other than income tax	193,780	75,458
Trade and other receivables	2,856,879	4,097,569

(a) As at 31 December 2007 and 2006, the carrying amount of the Group's trade and other receivables approximated their fair value.

(b) Movements on the provision for impairment of trade and other receivables are as follows:

	2007	2006
Opening amount	29,523	98,767
Provision for receivable impairment (Note 22)	3,685	896
Receivables written off during the year as uncollectible	(4,616)	(70,140)
Closing amount	28,592	29,523

Provision for impairment is included in administrative expenses (Note 22) in the consolidated income statements as follows:

	2007	2006
Administrative expenses	3,685	896

(All amounts in RMB thousands unless otherwise stated)

9. TRADE AND OTHER RECEIVABLES (Continued)

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

	2007	2006
Less than 3 months	1,573,357	2,481,588
3 months to 6 months	654,728	1,249,635
6 months to 12 months	2,843	9,484
1 year to 2 years	9,139	23,453
2 years to 3 years	612	2,465
Over 3 years	1,723	222
	2,242,402	3,766,847

The credit policy generally requires 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 tenure of usually three to six months, which represents the credit term granted to the customers who pay by bank notes.

As at 31 December 2007 and 2006, accounts receivable of approximately RMB 1,090,731,000 and RMB 251,108,000 are secured by certain letters of credit issued by overseas third parties. No provision is provided against these receivables as at 31 December 2006 and 31 December 2007.

(d) There is no concentration of credit risk with respect to trade receivables as the Group has a large number of customers.

(All amounts in RMB thousands unless otherwise stated)

9. TRADE AND OTHER RECEIVABLES (Continued)

(e) Notes receivable are analysed as follows:

	2007	2006
Bank acceptance notes issued by related parties	1,250	263,800
Bank acceptance notes issued by third parties	693,031	858,723
Commercial acceptance notes issued by related parties	1,570	2,202,783
Commercial acceptance notes issued by third parties	4,071	—
	699,922	3,325,306

As at 31 December 2006, bank borrowings are secured on commercial acceptance notes for the value of approximately RMB 1,409,931,000 (Note 17).

Included in notes receivable listed above, notes receivable issued by related parties are as follows:

	2007	2006
Bank acceptance notes		
CNHTC Ji'ning Commercial Truck Co., Ltd.	1,000	200
CNHTC Ji'nan Bus Co., Ltd.	250	—
CNHTC Ji'nan Investment Co., Ltd.	—	143,600
CNHTC	—	90,000
CNHTC Special Vehicle Company	—	30,000
	1,250	263,800
Commercial acceptance notes		
CNHTC Ji'nan Investment Co., Ltd.	1,070	—
CNHTC Ji'nan Bus Co., Ltd.	500	—
CNHTC	—	1,920,000
CNHTC Lease Firm	—	102,783
CNHTC Ji'ning Commercial Truck Co., Ltd.	—	100,000
CNHTC Special Vehicle Company	—	80,000
	1,570	2,202,783

(All amounts in RMB thousands unless otherwise stated)

9. TRADE AND OTHER RECEIVABLES (Continued)

(e) Notes receivable are analysed as follows: (Continued)

Included in notes receivable listed above, notes receivable pledged and endorsed are as follows:

	2007	2006
Commercial acceptance notes pledged as security for short-term borrowings – issued by related parties	–	1,409,931
Commercial acceptance notes endorsed – issued by related parties	1,050	741,052

(f) Credit quality of the accounts receivable and notes receivable

(i) Accounts receivable and notes receivable that were neither past due nor impaired.

The credit quality of financial assets that are neither past due nor impaired can be assessed by types of the financial assets and by reference to historical information about counterparty default rates. The Group categorises its accounts receivable and notes receivable into the following:

- Group 1 – Bank acceptance notes for which the repayment are guaranteed by large state-owned bank;
- Group 2 – Commercial acceptance notes for which the repayment are guaranteed by corresponding issuer;
- Group 3 – Accounts receivable due from customers with no defaults in the past;
- Group 4 – Accounts receivable due from customers with some defaults in the past. All defaults were fully recovered.

	2007	2006
Group 1	694,281	1,122,523
Group 2	5,641	2,202,783
Group 3	1,509,553	372,630
Group 4	–	—
	2,209,475	3,697,936

(ii) Accounts receivable and notes receivable that were past due but not impaired.

As at 31 December 2007, accounts receivable and notes receivable that were past due not impaired were nil (2006: RMB 740,000).

(All amounts in RMB thousands unless otherwise stated)

9. TRADE AND OTHER RECEIVABLES (Continued)

(f) Credit quality of the accounts receivable and notes receivable (Continued)

(iii) Impaired receivables

As at 31 December 2007, accounts receivable that were impaired are analysed below:

	2007	2006
Accounts receivable	32,927	68,911
Less: provision for impairment	(24,585)	(23,949)
	8,342	44,962

The impaired receivables mainly relate to individual customers which are with doubtful repayment ability. It was assessed that a portion of the receivables is expected to be recovered.

(g) The carrying amounts of the Group's trade and other receivables are denominated in the following currencies:

	2007	2006
RMB	1,759,589	3,846,462
USD	80,176	186,423
EUR	1,016,874	64,684
GBP	240	—
	2,856,879	4,097,569

10. INVENTORIES

	2007	2006
Raw materials	798,282	804,436
Work in progress	423,088	287,833
Finished goods - parts and components	207,552	294,977
Finished goods - trucks	2,914,725	1,308,020
	4,343,647	2,695,266
Less: Provision for write-down of inventories	(95,902)	(84,868)
	4,247,745	2,610,398

(All amounts in RMB thousands unless otherwise stated)

10. INVENTORIES (Continued)

The cost of inventories recognised as expense and included in cost of sales are as follows:

	2007	2006
Distribution costs	1,991	174
Administrative expenses	9,833	12,512
Cost of sales	15,253,805	9,134,066
	15,265,629	9,146,752

The increase and reversal of provision for write-down of inventories have been included in cost of sales in the consolidated income statement (Note 22).

11. DISCOUNTED BILLS

Discounted bills were received by Sinotruk Finance Company Limited ("Sinotruk Finance Company") from certain suppliers of the Group, and were discounted to other financial institutions at an interest rate with reference to the re-discount rates as established by People's Bank of China ("PBOC"). Because the other financial institutions had rights of recourse claim on these bills against Sinotruk Finance Company according to the agreements between Sinotruk Finance Company and the other financial institutions, the related discounted bills were not derecognised.

12. RESTRICTED CASH

	2007	2006
Restricted cash denominated in RMB	2,098,057	2,846,374

The breakdown of restricted cash in nature as at 31 December 2006 and 2007 was as follows:

	2007	2006
Deposits for issuing bank acceptance notes	1,757,336	2,313,782
Deposits for issuing letters of credit	226,957	70,848
Security for bank borrowings	80,000	40,000
Mandatory reserve deposits (a)	33,764	26,744
Deposits pledged as security for CNHTC issuing notes payables (Note 36(a)(i))	—	375,000
Security for bill financing	—	20,000
	2,098,057	2,846,374

(a) The Group is required to place mandatory deposits with PBOC for taking deposits, facilitating borrowings, discounting notes and providing entrusted loan and entrusted investment. The deposits are calculated based on the amount of deposits placed with the Sinotruk Finance Company.

(All amounts in RMB thousands unless otherwise stated)

13. CASH AND CASH EQUIVALENTS

	Group		Company	
	2007	2006	2007	2006
Cash at bank and in hand	296	659	8	—
Time deposits with initial term of over three months (a)	937,660	1,352,102	—	—
Short-term bank deposits (b)	9,139,137	969,141	7,551,664	—
Cash and cash equivalents	10,077,093	2,321,902	7,551,672	—
Denominated in:				
- RMB	2,436,090	2,255,923	—	—
- HK$	7,552,564	489	7,551,672	—
- USD	88,017	51,331	—	—
- GBP	354	368	—	—
- EUR	50	13,791	—	—
- others	18	—	—	—
	10,077,093	2,321,902	7,551,672	—

(a) The weighted average effective interest rates on time deposits, with maturities over 3 months, were 3.15% per annum (2006: 2.26%).

(b) The weighted average effective interest rate on short-term bank deposits, with maturities ranging from one to three months, was 0.76% per annum (2006: 0.72%).

The Group's cash and cash equivalents denominated in RMB are deposited with banks in Mainland China. The conversion of these RMB denominated balances into foreign currencies is subject to the rules and regulations of foreign exchange control promulgated by the PRC Government.

(c) Credit quality of cash at bank

The Group categorises its cash at bank into the following

- Group 1 – Major international bank;
- Group 2 – State-owned banks in Mainland China;

The management considered the credit risks in respect of cash and bank deposit with financial institution are relatively minimum as each counterparty bank either bears a high credit rating or is large state-owned PRC bank. The management believes the state is able to support the state-owned PRC banks in the event of a crisis.

	Group		Company	
	2007	2006	2007	2006
Group 1	54,359	20,335	—	—
Group 2	10,022,438	2,300,908	7,551,664	—
	10,076,797	2,321,243	7,551,664	—

(All amounts in RMB thousands unless otherwise stated)

14. EQUITY

As described in Note 2(a) above, the consolidated financial statements have been prepared as if the current group structure had been in existence throughout the year ended 31 December 2007 and 2006. Equity during the year ended 31 December 2007 and 2006 represents the consolidated equities of the business owned and operated by the Group, after eliminating inter-company transactions and balances.

(a) Share capital and premium – Company

		Amount		
	Number of shares	Ordinary shares	Share premium	Total
At 1 January 2007	—	—	—	—
Incorporation of the Company (i)	1	—	—	—
Share subdivision (ii)	9	—	—	—
Share issued and allotted on 27 June 2007 (ii)	99,990	10	—	10
Share issued and allotted on 30 June 2007 to acquire subsidiaries (iii)	1,499,900,000	146,144	2,860,145	3,006,289
Issue of new shares (iv)	775,199,000	73,494	8,867,000	8,940,494
At 31 December 2007	2,275,199,000	219,648	11,727,145	11,946,793

The total authorised number of ordinary shares is 100,000 million shares with a par value of HK$ 0.1 per share. All issued shares are fully paid.

(i) The Company was incorporated in Hong Kong on 31 January 2007 as a limited liability company in preparation for a listing of the Company's shares on the Main Board of The Stock Exchange of Hong Kong Limited.

As at the date of incorporation of the Company, the authorised share capital was HK$ 10,000 divided into 10,000 shares of HK$ 1.00 each, of which one share of HK$ 1.00 was allotted, issued and credited as fully paid to the subscriber.

On 12 February 2007, the subscriber transferred the one share of HK$ 1.00 each in issue in the Company to Sinotruk BVI, which is wholly owned by CNHTC, for cash at par.

(ii) On 27 June 2007, (1) every one share of HK$ 1.00 each in share capital of the Company was subdivided into ten shares; and (2) the authorised share capital was increased to HK$ 10,000,000,000 by the creation of an additional 99,999,900,000 shares which rank pari passu with the existing shares. On 30 June 2007, 99,990 shares were allotted and issued to Sinotruk BVI for cash at par.

14. EQUITY (Continued)

(a) Share capital and premium – Company (Continued)

(iii) On 30 June 2007, the Company acquired the entire equity interests in the Operating Companies from Sinotruk BVI through a share swap, and became the holding company of the companies now comprising the Group. As at 30 June 2007, 1,499,900,000 ordinary share of HK$ 0.10 (equivalent to approximately RMB 146,144,000) was allotted and issued to Sinotruk BVI for the purpose of acquiring the Operating Companies.

Cost of investment in subsidiaries in the Company balance sheet is recognised at RMB 3,006,299,056 on a deemed cost basis pursuant to the Asset Injection Agreement, dated 2 April 2007, among CNHTC, Sinotruk BVI and the Company, which has been approved by the Shandong provincial counterpart of SASAC.

The excess of the cost of investment in subsidiaries over the par value of the shares were credited to the share premium.

(iv) As at 31 December 2007, the Company completed its global offering of 775,199,000 shares at HK$ 12.88 per share for cash. 702,000,000 shares were listed on The Stock Exchange of Hong Kong Limited on 28 November 2007 and the over-allotment of 73,199,000 shares was completed on 20 December 2007. The excess over the par value of shares were credited to the share premium after deduction of share issue expenses.

(b) In accordance with PRC regulations and the Articles of the Association of the subsidiaries registered in PRC ("PRC subsidiaries"), before distributing the profit of each year, the PRC subsidiaries are required to set aside 10% of their statutory net profit for the year after offsetting any prior year's losses as determined under the PRC accounting regulations to the statutory reserve. When the balance of such reserve reached 50% of the share capital, any further appropriation is optioned. The statutory reserve can be utilised to offset prior year's losses or to issue bonus shares. However, such statutory reserve must be maintained at a minimum of 25% of the entity's share capital after such issuance.

(c) Capital reserves include capital premium and reserves arising from asset donations and transactions with CNHTC as a result of carving out the Retained Operations.

(d) Certain companies now comprising the Group have obtained approvals from relevant tax authorities in Mainland China for their entitlement to be consolidated by CNHTC to calculate enterprise income tax ("EIT") before 31 December 2006. The entities forming the tax consolidation group account for their own current and deferred tax amounts. These tax amounts are measured as if each entity in the tax consolidation group continues to be a standalone taxpayer in its own right. CNHTC, the head entity of the tax consolidation group, has deductible tax losses carry forward from the previous years, which can offset all the assessable profit of other companies of the tax consolidation group by 31 December 2006. As a result, these companies under consolidated tax return are not required to pay EIT to tax authorities until 31 December 2006. The amounts assumed by CNHTC were recognised as a contribution from CNHTC.

Under relevant tax consolidation legislation, when an entity is no longer a wholly owned subsidiary of CNHTC, it leaves the tax consolidation group and starts to recognise its own tax liabilities without having to derecognise them for their assumption by CNHTC.

14. EQUITY (Continued)

(e) During the year of 2006, pursuant to the *Guiding Opinion Concerning the Share Reform of Listed Companies* jointly published by CSRC, SASAC, Ministry of Finance, the PBOC and MOFCOM and a series of documents published by other authorities, and approved by the shareholders' meeting of Sinotruk Ji'nan Truck Company, CNHTC, together with other shareholders of the unlisted and non-circulating share, surrendered 2.8 ordinary shares to each circulating A shares shareholders for every 10 A shares they held, converting all the Sinotruk Ji'nan Truck Company's unlisted and non-circulating shares to listed and circulating A shares. The total consideration surrendered by CNHTC amounted to 24,896,478 ordinary shares, composing 9.80% of total issued shares of Sinotruk Ji'nan Truck Company.

(f) Pursuant to the agreement signed by CNHTC and Sinotruk Ji'nan Truck Company on 11 April 2006, Sinotruk Ji'nan Truck Company issued 68,660,000 shares to CNHTC in exchange for (i) 51% equity interests of Sinotruk Ji'nan Axle & Transmission Company Limited and (ii) certain assets and liabilities which are relevant to the Operating Companies. Consequently, CNHTC's equity shares in Sinotruk Ji'nan Truck Company increased by 9.8%, from 53.98% (137,103,522 shares) to 63.78% (205,763,522 shares).

(g) Contributions from/Distributions to equity holder represent the net of:

(i) cash received/receivable, net of cash paid/payable by CNHTC from disposal of/additional investments in companies within the Retained Operations (the "Retained Companies");

(ii) cash received/paid by CNHTC for tax payments in relation to the operations of the Retained Companies; and

(iii) cash injected by CNHTC/Retained Operations to the Listing Business.

The above transactions with the Retained Operations have ceased upon formation of the Group.

(h) The merger reserve of the Group represents the difference between the nominal value of the shares or the capital of the subsidiaries that had been acquired and the nominal value of the Company's shares issued in exchange therefore pursuant to the Reorganisation.

(All amounts in RMB thousands unless otherwise stated)

15. ACCOUNTING ADJUSTMENTS UNDER COMMON CONTROL COMBINATION

The following is a reconciliation of the effect arising from the common control combination on the consolidated balance sheets.

The consolidated balance sheet as at 31 December 2007:

	The Company	The Operating Companies	Adjustments	Consolidated
Investment in the Operating Companies	4,383,152	—	(4,383,152)	—
Other assets – net	7,728,932	2,797,522	1,376,853	11,903,307
Net assets	12,112,084	2,797,522		11,903,307
Share capital	219,648	—	—	219,648
Share premium	11,727,145	—	(2,860,145)	8,867,000
Statutory reserves	—	219,314	—	219,314
Capital reserves	—	(863,099)	—	(863,099)
Merger reserve	—	1,191,627	(146,154)	1,045,473
Translation reserve	—	(4,871)	—	(4,871)
Retained earnings	165,291	1,338,323	—	1,503,614
Minority Interests	—	916,228	—	916,228
	12,112,084	2,797,522		11,903,307

The consolidated balance sheet as at 31 December 2006:

	The Operating Companies	Adjustments	Consolidated
Investment in the Operating Companies	—	—	—
Other assets – net	1,585,033	—	1,585,033
Net assets	1,585,033		1,585,033
Share capital	—	146,154	146,154
Statutory reserves	67,820	—	67,820
Capital reserves	(768,349)	—	(768,349)
Merger reserve	1,096,877	(146,154)	950,723
Translation reserve	(1,339)	—	(1,339)
Retained earnings	545,923	—	545,923
Minority interests	644,101	—	644,101
	1,585,033		1,585,033

Note: The above adjustments represent adjustments to eliminate the share capital of the combining entities against the investment costs. The difference of approximately RMB 1,045,473,000 has been taken to the merger reserve in the consolidated financial statements.

No other significant adjustments were made to the net assets and net profit or loss of any entities or businesses as a result of the common control combination to achieve consistency of accounting policies.

(All amounts in RMB thousands unless otherwise stated)

16. TRADE AND OTHER PAYABLES

	2007	2006
Trade and bills payables	5,030,493	3,023,345
Advances from customers	525,625	251,238
Staff welfare and salaries payable	139,597	40,065
Taxes liabilities other than income tax	22,312	30,253
Accrued expenses	219,705	91,130
Other payables	641,814	237,766
	6,579,546	3,673,797

As at 31 December 2006 and 2007, the ageing analysis of the trade and bills payable were as follows:

	2007	2006
Less than 3 months	3,891,622	2,538,736
3 months to 6 months	1,035,232	56,714
6 months to 12 months	64,787	368,696
1 year to 2 years	24,416	42,995
2 years to 3 years	4,698	14,717
Over 3 years	9,738	1,487
	5,030,493	3,023,345

The carrying amounts of the Group's trade and other payables are denominated in the following currencies:

	2007	2006
RMB	6,551,994	3,652,693
USD	27,552	21,104
	6,579,546	3,673,797

(All amounts in RMB thousands unless otherwise stated)

17. BORROWINGS

The Group	2007	2006
Non-current		
Long-term bank borrowings		
- guaranteed (a)	320,350	405,750
- secured (b)	11,942	1,623
- unsecured	592,135	—
	924,427	407,373
Current		
Long-term bank borrowings, current portion		
- secured (b)	398,015	423
- unsecured	60,000	—
	458,015	423
Short-term bank borrowings		
- guaranteed (a)	—	830,000
- secured (b)	1,033,173	5,947,131
- unsecured	2,966,000	998,003
	3,999,173	7,775,134
	4,457,188	7,775,557
Total borrowings	5,381,615	8,182,930

(a) As at 31 December 2007, bank borrowings of approximately RMB 320,350,000 (2006: RMB 1,235,750,000) are guaranteed by CNHTC.

(All amounts in RMB thousands unless otherwise stated)

17. BORROWINGS (Continued)

(b) As at 31 December 2007, bank borrowings of approximately RMB 13,819,000 are secured by certain land use rights (Note 6) and property, plant and equipment (Note 7). Bank borrowings of approximately RMB 1,429,311,000 are secured by certain bank deposits (Note 12).

As at 31 December 2006, bank borrowings of approximately RMB 2,046,000 are secured by certain property, plant and equipment (Note 7). Bank borrowings of approximately RMB 474,700,000 are secured by certain discounted bills. Bank borrowings of approximately RMB 1,409,931,000 are secured by certain commercial acceptance notes (Note 9). Bank borrowings of approximately RMB 4,062,500,000 are secured by certain bank deposits (Note 12).

The Group's borrowings were repayable as follows:

	2007	2006
Within 1 year	4,457,188	7,775,557
Between 1 and 2 years	594,013	60,416
Between 2 and 5 years	325,981	1,205
Wholly repayable within 5 years	5,377,182	7,837,178
Over 5 years	4,433	345,752
	5,381,615	8,182,930

The carrying amounts of the Group's borrowings are denominated in the following currencies:

	2007	2006
RMB	5,355,624	8,182,930
HK$	25,991	—
	5,381,615	8,182,930

(All amounts in RMB thousands unless otherwise stated)

17. BORROWINGS (Continued)

The weighted average effective interest rates at the respective balance sheet dates were set out as follows:

	2007	2006
RMB	5.86%	4.55%
HK$	4.96%	—

Interest rates of the bank borrowings denominated in RMB are reset periodically according to the primary rate announced by PBOC.

The exposure of the Group's borrowings to interest-rate changes and contractual repricing dates are as follows:

	2007	2006
Within 6 months	4,201,265	8,182,930
Between 7 and 12 months	660,000	—
Between 1 and 5 years	520,350	—
	5,381,615	8,182,930

The carrying amounts of current borrowings approximate their fair values.

The carrying amounts and fair value of non-current borrowings are set out as follows:

	2007	2006
Carrying amount	924,427	407,373
Fair value	840,716	357,817

The fair values of non-current borrowings are estimated based on discounted cash flow approach using the prevailing market rates of interest available to the Group for financial instruments with substantially the same terms and characteristics at the respective balance sheet dates.

(All amounts in RMB thousands unless otherwise stated)

17. BORROWINGS (Continued)

The Group has the following undrawn borrowing facilities:

	2007	2006
Floating rate		
– expiring within one year	7,108,000	1,482,710

18. DEFERRED INCOME TAX

(a) The gross movement on the deferred income tax account is as follows:

	2007	2006
Beginning of the year	195,806	460,215
Credit/(charge) to consolidated income statement (Note 25(a))	72,715	(56,346)
Transfer to CNHTC resulting from the Reorganisation (Note 33)	—	(208,063)
Effect of income tax rate changed from 1 January 2008	(65,095)	—
End of the year	203,426	195,806

(All amounts in RMB thousands unless otherwise stated)

18. DEFERRED INCOME TAX (Continued)

(b) The movement in deferred tax assets is as follows:

Deferred tax assets	Impairment of assets	Pensions and other post-retirement benefits	Unrealised profit	Accrued expenses & contingencies	Others	Total
As at 1 January 2006	80,910	315,497	36,483	24,577	2,748	460,215
Credit/(charge) to income statement (Note 25(a))	(12,095)	(107,138)	24,235	39,095	(443)	(56,346)
Transfer to CNHTC resulting from the Reorganisation (Note 33)	(29,779)	(175,659)	–	(1,388)	(1,237)	(208,063)
As at 31 December 2006	39,036	32,700	60,718	62,284	1,068	195,806
Credit/(charge) to income statement (Note 25(a))	3,317	(5,407)	66,785	8,056	(36)	72,715
Effect of income tax rate changed from 1 January 2008	(10,267)	(6,617)	(30,910)	(17,051)	(250)	(65,095)
As at 31 December 2007	**32,086**	**20,676**	**96,593**	**53,289**	**782**	**203,426**

On 16 March 2007, the National People's Congress approved the Corporate Income Tax Law of the People's Republic of China (the "new CIT Law"). The new CIT Law reduces/(increases) the corporate income tax rate for domestic enterprises/(foreign invested enterprises) from 33%/(15% or 24%) to 25% with effect from 1 January 2008. The tax rate reduction/(increase) will also impact the carrying value of deferred tax assets as a result of the new tax rate. The carrying amount of the deferred tax assets was written down by approximately RMB 65,095,000 due to the change of applicable tax rate.

(All amounts in RMB thousands unless otherwise stated)

19. TERMINATION BENEFITS, POST-EMPLOYMENT BENEFITS AND MEDICAL INSURANCE PLAN

	2007	2006
Termination benefits (a)	67,760	84,040
Post-employment benefits (b)	9,200	9,960
Medical insurance plan (c)	4,590	5,090
	81,550	99,090

(a) The Group recognises termination benefits when it is demonstrably committed to either terminating the employment of current employees according to a detailed formal plan without possibility of withdrawal, or providing termination benefits as a result of an offer made to encourage voluntary redundancy. Benefits falling due more than 12 months after balance sheet date are discounted to present value.

The termination benefits recognised in the income statement are as follows:

	2007	2006
Termination benefits, included in staff costs	2,370	6,600

As a result of the Reorganisation, with effect on 30 June 2006, termination benefits of approximately RMB 228,830,000 were transferred to the CNHTC (see Note 33).

(b) For employees who formally retired before 1 May 2002, the Group is committed to pay fixed contributions to these employees on a monthly basis. For employees who retired after 1 May 2002, the Group has no further payment obligations. The Group accounts for it by using the accounting basis similar to a defined benefit plan.

The amounts of post-employment benefits recognised in the balance sheet are determined as follows:

	2007	2006
Present value of benefit plans	8,870	10,120
Unrecognised actuarial gains/(losses)	330	(160)
Liability in the balance sheet	9,200	9,960

(All amounts in RMB thousands unless otherwise stated)

19. TERMINATION BENEFITS, POST-EMPLOYMENT BENEFITS AND MEDICAL INSURANCE PLAN (Continued)

(b) (Continued)

The post-employment benefits recognised in the income statement are as follows:

	2007	2006
Post-employment benefits	310	5,170

The movement of post-employment benefits recognised in the balance sheet is as follows:

	2007	2006
Beginning of the year	9,960	300,410
Total expenses, included in staff costs as shown above	310	5,170
Transfer to CNHTC resulting from the Reorganisation (Note 33)	—	(287,410)
Contributions paid	(1,070)	(8,210)
End of the year	9,200	9,960

(c) The Group entities operating in Ji'nan City provide post-retirement healthcare benefit to their retirees retiring before 1 March 2006. The entitlement to these benefits is usually conditional on the employee remaining in service up to the pre-defined 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 recognised in the income statement over the expected average remaining working lives of the related employees. These obligations are valued annually by independent qualified actuaries.

On 1 March 2006, with the approval of governmental authorities, the Group entities operating in Ji'nan joined the social medical security plan. According to the relevant regulations, the contributions that should be borne by the Group entities are calculated based on 8% of the total salary of employees, subject to a certain ceiling, and are paid to the Ji'nan labor and social welfare authorities. Under the social medical security plan, the Group has been relieved from obligation for post-retirement healthcare benefits beyond the contributions made, except for the obligation in connection with the contributions to the social medical security plan for the employees of Sinotruk Ji'nan Truck Company, whose employment is terminated before the normal retirement dates.

Gains from above settlement are recorded in other gains - net in the income statement on 1 March 2006.

(All amounts in RMB thousands unless otherwise stated)

19. TERMINATION BENEFITS, POST-EMPLOYMENT BENEFITS AND MEDICAL INSURANCE PLAN (Continued)

(c) (Continued)

The amounts of medical insurance plan recognised in the balance sheet are determined as follows:

	2007	2006
Present value of benefit plan	4,700	5,610
Unrecognised actuarial losses	(110)	(520)
Liability in the balance sheet	4,590	5,090

The medical insurance plan recognised in the income statement is as follows:

	2007	2006
Current service cost	60	1,120
Interest cost	110	2,280
Total expenses, included in staff costs	170	3,400
Gain on settlements, included in other gains, net (Note 21)	—	(301,220)

The movement of medical insurance plan recognised in the balance sheet is as follows:

	2007	2006
Beginning of the year	5,090	321,220
Total expenses, included in staff costs as shown above	170	3,400
Transfer to CNHTC resulting from the Reorganisation (Note 33)	—	(16,060)
Gain on settlements, included in other gains, net (Note 21)	—	(301,220)
Contributions paid	(670)	(2,250)
End of the year	4,590	5,090

(All amounts in RMB thousands unless otherwise stated)

19. TERMINATION BENEFITS, POST-EMPLOYMENT BENEFITS AND MEDICAL INSURANCE PLAN (Continued)

(d) The above obligations were actuarially determined by an independent actuarial firm using the projected unit credit method.

The material actuarial assumptions used in valuing these obligations are as follows:

(i) Discount rates adopted and salary increase rate adopted:

	2007	2006
Post-employment benefits and medical insurance plan discount rate	4.5%	3.25%
Average salary increase rate	5%to12%	5% to 12%
Pooling allowance inflation rate for old civil retirees	5%	5%
Health care cost inflation rate in Ji'nan	5%	5%

The effect of above changes in discount rates was reflected as actuarial gains and losses and charged to the consolidated income statement in the period of change.

(ii) Mortality: Average life expectancy of residents in the PRC plus two years.

20. PROVISIONS FOR OTHER LIABILITIES

	Legal claims	Products warranties	Total
As at 1 January 2006	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 (Note 33)	(7,953)	—	(7,953)
As at 31 December 2006	3,857	66,538	70,395
Additional provision	—	278,248	278,248
Untilised during the year	(1,648)	(194,369)	(196,017)
As at 31 December 2007	2,209	150,417	152,626

For the year ended 31 December 2007
(All amounts in RMB thousands unless otherwise stated)

21. OTHER (LOSSES)/GAINS – NET

	2007	2006
Sales of by-products	17,403	111,001
Losses on disposals of property, plant and equipment	(2,396)	(52,151)
Gains on waiver of debts	1,920	382
Government grants	7,928	5,970
Rental income	2,546	6,414
Gains from settlement of medical insurance plans (Note 19(c))	—	301,220
Foreign exchange losses	(53,254)	(2,143)
Others	7,795	1,862
	(18,058)	372,555

22. EXPENSES BY NATURE

	2007	2006
Auditors' remuneration	8,587	2,241
Amortisation of land use rights (Note 6)	6,021	5,298
Amortisation of intangible assets (Note 8)	1,937	1,836
Depreciation of property, plant and equipment (Note 7)	230,482	226,045
Provision for impairment of trade and other receivables (Note 9)	3,685	896
Employee benefit expense (Note 23)	1,080,071	749,543
Provision for/(written-back of) write-down of inventories (Note 10)	57,182	(27,601)
Inventory cost (Note 10)	15,208,447	9,174,353
Transportation expenses	473,846	259,776
Advertising costs	146,891	90,936
Warranty expenses	278,248	169,900
Travel and office expenses	130,900	95,828
Transaction taxes	49,472	35,265
Utilities	487,095	291,502
Other expenses	1,179,542	742,327
Total cost of sales, distribution costs and administrative expenses	19,342,406	11,818,145

(All amounts in RMB thousands unless otherwise stated)

23. EMPLOYEE BENEFIT EXPENSES

	2007	2006
Salaries, wages and bonuses	826,139	562,695
Contributions to pension plans (a)	92,305	56,132
Termination benefits (Note 19)	2,370	6,600
Post-employment benefits (Note 19)	310	5,170
Medical insurance plan(Note 19)	170	3,400
Housing benefits (b)	29,070	22,516
Other welfare expenses	129,707	93,030
	1,080,071	749,543

(a) The employees of the subsidiaries in the Mainland China participate in various retirement benefit plans organised by the relevant municipal and provincial government in Mainland China under which the Group was required to make monthly contributions to these plans at rates ranging from 20% to 23%, dependent on the applicable local regulations, of the employees' basic salary for the year ended 31 December 2007 and 2006.

In addition, the Group participates in various defined contribution retirement schemes for its qualified employees in certain countries outside Mainland China. Employees' and employers' contributions are calculated based on various percentages of employees' gross salaries or fixed sums and length of service. The assets of the schemes are held separately from those of the administered funds independently.

(b) Housing benefits include the government-supervised housing funds (at rates ranging from 5% to 12% of the employees' basic salary) in Mainland China during the year ended 31 December 2007 and 2006 (see to Note 2 (r)(iv) for the details).

24. FINANCE INCOME AND COSTS

	2007	2006
Interest expense:		
- Bank borrowings	145,692	118,559
- Discount of notes receivable	73,317	143,881
Finance income - Net foreign exchange losses/(gains) on financing activities	2,315	(3,005)
Finance costs	221,324	259,435
Finance income:		
- Interest income on bank deposits	(173,180)	(124,164)
- Interest income from loan and receivables	—	(69)
	(173,180)	(124,233)
Net finance costs	48,144	135,202

25. TAXATION

(a) Income tax expense

Sinotruk (Hong Kong) International Investment Limited, one of the subsidiaries, and the Company are subject to Hong Kong profits tax at the rate of 17.5% on its estimated taxable profit (2006: 17.5%).

According to the Income Tax Law for Foreign Investment Enterprises and Foreign Enterprises and other policies related to income tax relief, Ji'nan Fuqiang Power Company Limited 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 was 2003, and is then entitled to a 50% reduction in corporate income tax for three years thereafter until 2007.

Ji'nan Power, Sinotruk Ji'nan Truck Co., Ltd. and Sinotruk Ji'nan Commercial Truck Co., Ltd. were subject to the PRC enterprise income tax, which had been provided based on the statutory income tax rate of 33% of the taxable income, before they were transformed from domestic companies to Foreign Investment Enterprises in May 2007. They were exempted from corportate income tax from 1 June 2007 to 31 December 2007.

Sinotruk Ji'nan Axle & Transmission Co., Ltd. and Sinotruk Chongqing Fuel System Co., Ltd. were subject to the PRC enterprise income tax, which had been provided based on the statutory income tax rate of 33% of the taxable income and exempted from corporate income tax from 1 September 2007 to 31 December 2007.

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 assessable income of each of the companies now comprising the Group during the year ended 31 December 2007 and 2006 as determined in accordance with the relevant PRC income tax rules and regulations.

On 16 March 2007, the National People's Congress approved the new CIT Law. The new CIT Law reduces/(increases) the corporate income tax rate for domestic enterprises/(foreign invested enterprises) from 33%/(15% or 24%) to 25% with effect from 1 January 2008. Therefore, the corporate income tax rate applicable to the subsidiaries incorporated in Mainland China will be 25% effective from 1 January 2008.

(All amounts in RMB thousands unless otherwise stated)

25. TAXATION (Continued)

(a) Income tax expense (Continued)

The amount of income tax expense charged to the income statements represents:

	2007	2006
Current income tax:		
- Hong Kong profits tax	2,437	—
- PRC enterprise income tax	505,989	350,429
	508,426	350,429
Deferred tax (Note 18(a))	(7,620)	56,346
	500,806	406,775

The tax on the Group's profit before tax differs from the theoretical amount that could arise using the weighted average tax rate applicable to profits of the consolidated entities as follows:

	2007	2006
Profit before tax	1,888,764	1,186,658
Tax calculated at tax rates applicable to profits in the respective regions	623,292	390,728
Income not subject to tax	(368)	—
Expenses not deductible for tax purposes	25,244	16,508
Tax losses for which no deferred tax asset was recognised	41,265	—
Effect of Income tax rate changed from 1 January 2008 (Note 18(a))	65,095	—
Effect of tax exemption of subsidiaries	(253,722)	(461)
Income tax expense	500,806	406,775

The weighted average applicable tax rate for the year was 26.5% (2006: 34.3%) per annum.

Non-deductible expenses primarily include staff salary costs in excess of those permitted to be deducted.

The Group has unrecognised tax losses of approximately RMB 125,044,000 (2006: nil), which can be carried forward against future taxable income in a 5-year period when the respective tax losses were incurred.

(All amounts in RMB thousands unless otherwise stated)

25. TAXATION (Continued)

(b) Business tax ("BT") and related taxes

Certain of the companies now comprising the Group are subject to BT at rates ranging from 3% and 5% of the service fee income received and receivable. In addition, the Group is subject to city construction tax ("CCT") and educational surcharge ("ES") based on 7% and 4% of BT payable, respectively.

(c) Value-added tax ("VAT") and related taxes

Certain of the companies now comprising the Group are subject to output VAT generally calculated at 17% of the product selling prices. An input credit is available whereby input VAT previously paid on purchases of raw materials or semi-finished products can be used to offset the output VAT to determine the net VAT payable. The subsidiaries are also subject to CCT and ES based on 7% and 4% of net VAT payable, respectively.

26. DIRECTORS' AND SENIOR MANAGEMENT'S EMOLUMENTS

(a) Remunerations

(i) The remuneration of every Director for the year ended 31 December 2006 is set out below:

Name of Director	Salary & bonuses	Other benefits	Employer's contribution to pension scheme	Compensation for loss of office as director	Total
Mr. Ma Chun Ji	601	22	19	—	642
Mr. Cai Dong	551	7	11	—	569
Mr. Wang Dong Hui	480	5	11	—	496
Mr. Wang Hao Tao	480	5	11	—	496
Mr. Wei Zhi Hai	480	14	12	—	506
Mr. Wang Guang Xi	480	5	11	—	496
Mr. Li Guo Xian	420	5	11	—	436
Mr. Yan Jia Zhi	230	5	11	—	246
Mr. Liu Pei Ming	170	20	11	—	201

(All amounts in RMB thousands unless otherwise stated)

26. DIRECTORS' AND SENIOR MANAGEMENT'S EMOLUMENTS (Continued)

(a) Remunerations (Continued)

(ii) The remuneration of every Director for the year ended 31 December 2007 is set out below:

Name of Director	Salary & bonuses	Other benefits	Employer's contribution to pension scheme	Compensation for loss of office as director	Total
Mr. Ma Chun Ji	600	3	21	—	624
Mr. Cai Dong	552	8	9	—	569
Mr. Wang Hao Tao	480	7	9	—	496
Mr. Wei Zhi Hai	480	1	9	—	490
Mr. Wang Guang Xi	480	7	9	—	496
Mr. Tong Jin Gen	480	7	9	—	496
Mr. Wang Shan Po	480	7	9	—	496
Mr. Shao Qi Hui	60	—	—	—	60
Mr. Lin Zhi Jun	60	—	—	—	60
Mr. Ou Yang Ming Gao	60	—	—	—	60
Mr. Hu Zheng Huan	60	—	—	—	60
Mr. Chen Zheng	60	—	—	—	60
Mr. Li Xian Yun	60	—	—	—	60

During year 2007, no directors or senior management of the Company waived any emoluments and no emoluments were paid by the Group to any of the directors or senior management as an inducement to join or upon joining the Group or as compensation for loss of office.

(All amounts in RMB thousands unless otherwise stated)

26. DIRECTORS' AND SENIOR MANAGEMENT'S EMOLUMENTS (Continued)

(b) Five highest paid individuals

The five individuals whose emoluments were the highest in the Group during the 2007 include four directors whose emoluments have been included in Note (a) above. The emoluments payable to the remaining individual during the year are as follows:

	2007	2006
Basic salaries, housing allowances, share options, other allowances and benefits in kind & bonuses	814	—

The emoluments fell within the following bands:

	2007	2006
Emolument bands (in HK dollars)		
HK$ nil – HK$ 1,000,000	1	—

27. PROFIT ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY

The profit attributable to equity holders of the Company is dealt with in the financial statements of the Company to the extent of RMB 165,291,000.

28. EARNINGS PER SHARE

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 year, excluding ordinary shares purchased by the Company and held as treasury shares.

	2007	2006
Profit attributable to equity holders of the Company (RMB thousands)	**1,109,185**	638,465
Weighted average number of ordinary shares in issue (thousands)	**1,564,637**	1,500,000
Basic earnings per share (RMB per share)	**0.71**	0.43

Diluted earnings per share equals to basic earnings per share for the years ended 31 December 2006 and 2007 as the Company has no dilutive potential shares existed during the years.

29. DIVIDENDS

During the year ended 31 December 2006, certain of the Group's non-wholly owned subsidiaries have paid dividends to equity holder and minority shareholders of approximately RMB 60,918,000 and RMB 1,749,000, respectively.

During the year ended 31 December 2007, one of the Group's non-wholly owned subsidiaries has paid dividends to minority shareholders of approximately RMB 5,267,000.

The rates of above dividend and number of shares ranking for dividends are not presented as such information is not meaningful for the purpose of this report.

At a meeting held on 18 April 2008, the Board proposed a final dividend in respect of the year ended 31 December 2007 of approximately HK$ 161,539,000 (approximately RMB 145,112,000), representing HK$ 0.071 per ordinary share. This proposed dividend is not reflected as a dividend payable in these financial statements, but will be reflected as an appropriation of retained earnings for the year ending 31 December 2008.

(All amounts in RMB thousands unless otherwise stated)

30. CASH GENERATED FROM OPERATIONS

	2007	2006
Profit before income tax	1,888,764	1,186,658
Adjustments for:		
- Depreciation (Note 7)	230,482	226,045
- Amortisation (Notes 6 & 8)	7,958	7,134
- Loss on disposals of property, plant and equipment (see below)	2,396	52,151
- Gains from settlement of medical insurance plans (Note 21)	—	(301,220)
- Interest income (Note 24)	(173,180)	(124,233)
- Interest expense (Note 24)	219,009	262,440
- Foreign exchange losses/(gains) on financing activities (Note 24)	2,315	(3,005)
- Foreign exchange losses/(gains) on cash and bank overdrafts	102,436	(3,501)
	2,280,180	1,302,469
Changes in working capital (excluding the effects of acquisition and exchange differences on consolidation):		
- Inventories	(1,583,001)	(90,990)
- Trade and other receivables and amounts due from related parties	(209,866)	(1,473,283)
- Restricted cash	(163,129)	64,340
- Receivables due from discounted bills	474,700	118,030
- Trade and other payables and amounts due to related parties	1,185,913	2,366,193
- Provisions for other liabilities and charges	82,231	26,887
- Termination benefits, post-employment benefits and medical insurance plan	(17,540)	(23,440)
Cash generated from operations	2,049,488	2,290,206

(All amounts in RMB thousands unless otherwise stated)

30. CASH GENERATED FROM OPERATIONS (Continued)

(a) In the cash flow statement, proceeds from sale of property, plant and equipment comprise:

	2007	2006
Net book amount (Note 7)	11,125	66,026
Loss on disposals of property, plant and equipment	(2,396)	(52,151)
Proceeds from disposal of property, plant and equipment	8,729	13,875

(b) In addition to the non-cash transactions shown in Note 14 in the financial statements, the principal non-cash transaction is as follows:

	2007	2006
Gains from settlement of medical insurance plans (Note 21)	–	301,220
Non-cash contribution from equity holder	–	57,905

31. CONTINGENCIES AND GUARANTEES

(a) Contingencies

The Group has contingent liabilities in respect of legal claims arising in the ordinary course of business. It is not anticipated that any material liabilities will arise from the contingent liabilities other than those provided for (Note 20).

(b) Outstanding loan guarantees

	2007	2006
Outstanding loan guarantees provided to related parties (Note 36 (a))	–	390,000

The Group has acted as the guarantor for various external borrowings made by certain related parties and third parties. All above guarantees have been released as at 31 December 2007. Settlement of these guarantees did not cause an outflow of resources embodying economic benefits.

(All amounts in RMB thousands unless otherwise stated)

32. COMMITMENTS

(a) Capital commitments

Capital expenditure contracted for at the balance sheet date but not yet incurred is as follows:

	2007	2006
Property, plant and equipment	531,862	250,456

(b) Operating lease commitments

The future aggregate minimum lease payments under non-cancellable operating leases are as follows:

	2007	2006
No later than 1 year	9,841	32,782
Later than 1 year and no later than 2 years	4,094	14,795
Later than 2 year and no later than 5 years	998	14,319
Later than 5 years	2,515	2,972
	17,448	64,868

(c) Lease payments receivable

The future aggregate minimum lease payments receivable under non-cancellable operating leases are as follows:

	2007	2006
No later than 1 year	6,324	3,767
Later than 1 year and no later than 2 years	4,107	2,659
Later than 2 year and no later than 5 years	11,844	315
Later than 5 years	1,199	—
	23,474	6,741

(All amounts in RMB thousands unless otherwise stated)

33. TRANSFER OF ASSETS AND LIABILITIES TO CNHTC

As a result of the Reorganisation set out in Note 1, with effect on 30 June 2006, certain assets and liabilities of the companies now comprising the Group were transferred to CNHTC, and certain assets and liabilities historically associated as part of the Predecessor Operations were retained by CNHTC. The assets and liabilities transferred to and retained by CNHTC were reflected as a contribution from CNHTC, and details are set out below:

	Assets and liabilities transferred to CNHTC (Note 1(b)(4))	Assets and liabilities retained by CNHTC (Note 1(b)(4))	Total
ASSETS			
Non-current assets			
Property, plant and equipment (Note 7)	48,159	412,348	460,507
Deferred income tax assets (Note 18)	88,624	119,439	208,063
	136,783	531,787	668,570
Current assets			
Inventories	—	34,842	34,842
Trade and other receivables	—	121,722	121,722
Amounts due from related parties	—	1,157,475	1,157,475
Restricted cash	—	1,538,192	1,538,192
Cash and cash equivalents	—	58,828	58,828
	—	2,911,059	2,911,059
LIABILITIES			
Non-current liabilities			
Borrowings	—	600,000	600,000
Other long-term payables	—	20,000	20,000
Termination benefits, post-employment benefits and medical insurance plan (Note 19)	477,810	54,490	532,300
	477,810	674,490	1,152,300
Current liabilities			
Trade and other payables	—	3,372,058	3,372,058
Borrowings	—	888,738	888,738
Amounts due to related parties	—	278,218	278,218
Provisions for other liabilities and Charges (Note 20)	—	7,953	7,953
	—	4,546,967	4,546,967
MINORITY INTERESTS	17,906	—	17,906
Net contributions from CNHTC (Note 14)	323,121	1,778,611	2,101,732

(All amounts in RMB thousands unless otherwise stated)

34. BUSINESS COMBINATION

On 31 December 2007, Ji'nan Power, a subsidiary of the Company, acquired the gearbox department from CNHTC for a purchase consideration of RMB 153,244,000. The acquisition was accounted for using merger accounting where the net assets of Ji'nan Power and the gearbox department are combined using the existing book value. The net assets acquired from CNHTC as at 31 December 2007 were as follows:

Cash paid:	153,244
Carrying amount of net assets acquired:	153,244

The net assets acquired are as follows:

	Carrying amount
Cash and cash equivalents	616
Other current assets	59,542
Property, plant and equipment	145,864
Current liabilities	(52,778)
Net assets acquired	153,244
Cash paid	153,244
Cash and cash equivalents acquired	(616)
Net cash used for acquisition	152,628

No significant adjustments were made to the net assets and net profit or loss of Ji'nan Power or gearbox department as a result of the common control combination to achieve consistency of accounting policies.

35. INVESTMENTS IN SUBSIDIARIES – THE COMPANY

	2007
Investments, at cost:	
Listed investments	1,926,283
Unlisted investments	2,456,869
	4,383,152
Market value of listed investments	13,642,122

On 30 June 2007, the Company acquired the equity interests in the Operating Companies from Sinotruk BVI through a share swap, and became the holding company of the companies now comprising the Group.

35. INVESTMENTS IN SUBSIDIARIES – THE COMPANY (Continued)

As at 31 December 2007, the Company had direct or indirect interest in the following subsidiaries:

Company Name	Country/ place and date of incorporation and place of operations	Type of legal entity	Issued/ paid in capital (in million)	Interest held	Principal activities
Listed -					
Sinotruk Ji'nan Truck Co., Ltd. (中國重汽集團濟南卡車股份有限公司)	PRC/ 28 September 1998	Joint stock company with limited liability	RMB 322.6	63.78% (Directly held)	Manufacture and sales of trucks and spare parts
Unlisted -					
Sinotruk Ji'nan Power Co., Ltd. (中國重汽集團濟南動力有限公司)	PRC/ 27 April 2006	Limited liability company	RMB 494.75	100% (Directly held)	Manufacture and reproduction of engines
Sinotruk Ji'nan Commercial Truck Co., Ltd. (中國重汽集團濟南商用車有限公司)	PRC/ 17 January 2001	Limited liability company	RMB 98	100% (Directly held)	Manufacture and sales of trucks and spare parts
Sinotruk Shandong Import & Export Co., Ltd. (中國重汽集團山東進出口有限公司)	PRC/ 9 November 2001	Limited liability company	RMB 55	100% (Directly held)	Import and export of trucks and spare parts
Sinotruk Ji'nan Ganghua Import & Export Co., Ltd. (中國重汽集團濟南港華進出口有限公司)	PRC/ 23 December 2005	Limited liability company	RMB 6	100% (Directly held)	Import and export of heavy duty trucks
Sinotruk Ji'nan Technical Center Co., Ltd. (中國重汽集團濟南技術中心有限公司)	PRC/ 26 December 2005	Limited liability company	RMB 50	100% (Directly held)	Research service of truck production techniques
Sinotruk Factory Design Institute Co., Ltd. (中國重汽集團設計研究院有限公司) (Formerly known as China National Heavy Duty Truck Group Design Institute (中國重型汽車集團設計研究院), which was restructured to limited liability company on 11 June 2006)	PRC/ 6 July 1993	Limited liability company	RMB 10	100% (Directly held)	Consulting service of truck production techniques
Sinotruk (Hong Kong) International Investment Limited (中國重汽（香港）國際資本有限公司)	Hong Kong PRC/ 6 August 2004	Limited liability company	HK$ 0.0028	85.71% (Directly held) 14.29% (Indirectly held)	Consulting service and import and export tradings and asset operations

For the year ended 31 December 2007
(All amounts in RMB thousands unless otherwise stated)

35. INVESTMENTS IN SUBSIDIARIES – THE COMPANY (Continued)

Company Name	Country/ place and date of incorporation and place of operations	Type of legal entity	Issued/ paid in capital (in million)	Interest held	Principal activities
Sinotruk Finance Co., Ltd. （中國重汽財務有限公司）	PRC/ 4 October 1987	Limited liability company	RMB 500	54.42% (Directly held)	Taking deposits, facilitating borrowings, discounting notes and providing entrusted loan and entrusted investment
Sinotruk Chongqing Fuel System Co., Ltd. （中國重汽集團重慶燃油噴射系統有限公司） (Formerly known as Chongqing Oil Pumps and Nozzle Products Factory （重慶油泵油咀廠）, which was restructured to limited liability company on 28 June 2006)	PRC/ 1 June 1973	Limited liability company	RMB 188.49	100% (Indirectly held)	Manufacture and sales of oil pump and nozzle
Sinotruk Hangzhou Engine Co., Ltd. （中國重汽集團杭州發動機有限公司）	PRC/ 30 April 2006	Limited liability company	RMB 180	100% (Indirectly held)	Manufacture and reproduction of engines
Hangzhou Automobile Engine Foundry Co., Ltd. （杭州汽發鑄造有限公司）	PRC/ 8 December 2000	Limited liability company	RMB 60	100% (Indirectly held)	Manufacture of castings
Ji'nan Fuqiang Power Co., Ltd. （濟南复強動力有限公司）	PRC/ 14 January 1995	Sino-foreign joint venture	USD 3.84	51% (Indirectly held)	Manufacture and reproduction of engines
Sinotruk Ji'nan Axle & Transmission Co., Ltd. （中國重汽集團濟南橋箱有限公司）	PRC/ 26 December 2005	Limited liability company	RMB 450	81.53% (Indirectly held)	Manufacture and sales of trucks and axle and transmission parts
Shandong Dadi Construction Supervision Co., Ltd. （山東大地建設監理有限責任公司）	PRC/ 18 December 1996	Limited liability company	RMB 0.5	60% (Indirectly held)	Construction project and technical consulting service

36. RELATED PARTY TRANSACTIONS

The Group is controlled by Sinotruk BVI, which owns 62.52% of the Company's shares. The ultimate parent company of the Group is CNHTC.

Related parties are those parties that have the ability to control the other party or exercise significant influence in making financial and operating decisions. Parties are also considered to be related if they are subject to common control. The Group is subject to the control of the PRC government.

In accordance with HKAS 24 "Related Party Disclosures", other state-owned enterprises and their subsidiaries, directly or indirectly controlled by the PRC Government are regarded as related parties of the Group ("other state-owned enterprises"). For the purpose of related party transactions disclosure, the Group has procedures in place to assist the identification of the immediate ownership structure of its customers and suppliers as to whether they are state-owned enterprises. Many state-owned enterprises have multi-layered corporate structure and the ownership structures change over time as a result of transfers and privatisation programs. Nevertheless, management believes that meaningful information relating to related party transactions has been adequately disclosed.

In addition to the related party information shown elsewhere in the financial statements, the following is a summary of significant related party transactions entered into in the ordinary course of business between the Group and its related parties, including other state-owned enterprises, during the years and balances arising from related party transactions for the years ended 31 December 2006 and 2007.

The directors were of the view that the following entities and person are related parties of the Group.

Name of related party	Nature of relationship
CNHTC（中國重型汽車集團有限公司）	The ultimate parent company
Sinotruk (BVI) Limited（中國重型（維爾京群島）有限公司）	Parent Company
CNHTC Special Vehicle Company（重汽集團專用汽車公司）	Subsidiary of CNHTC
CNHTC Ji'nan Bus Co., Ltd. （重汽集團濟南客車有限責任公司）	Subsidiary of CNHTC
CNHTC Taian Wuyue Special Truck Co., Ltd. （中國重型汽車集團泰安五岳專用汽車有限公司）	Subsidiary of CNHTC
CNHTC Lease Firm（中國重型汽車集團租賃商社）	Subsidiary of CNHTC
CNHTC Sales Company（中國重型汽車銷售公司）	Subsidiary of CNHTC
CNHTC Ji'ning Commercial Truck Co., Ltd. （中國重汽集團濟寧商用車有限公司）	Subsidiary of CNHTC
CNHTC Ji'nan Investment Co., Ltd. （中國重汽集團濟南投資有限公司）	Subsidiary of CNHTC
CNHTC Real Estates Company （中國汽車集團房地產開發公司）	Subsidiary of CNHTC
Shandong Xin Hai Guarantee Co., Ltd.（山東鑫海擔保有限公司）	One of the senior management of CNHTC is Chairman of Shandong Xin Hai Guarantee Co., Ltd.
CNHTC Ji'nan Realty Management Co., Ltd. （中國重汽集團濟南物業有限公司）	Subsidiary of CNHTC
CNHTC Ji'nan Construction Project Management Co., Ltd. （中國重汽集團濟南工程項目管理有限公司）	Subsidiary of CNHTC
Hangzhou Engine Factory （杭州發動機廠）	Subsidiary of CNHTC
Ji'nan Automobile Test Center（濟南汽車檢測中心）	Subsidiary of CNHTC

(All amounts in RMB thousands unless otherwise stated)

36. RELATED PARTY TRANSACTIONS (Continued)

(a) Significant related party transactions

(i) Significant transactions with related parties except for other state-owned enterprises (Continued)

	2007	2006
Sale of trucks		
CNHTC Special Vehicle Company	188,730	178,907
CNHTC Taian Wuyue Special Truck Co., Ltd.	35,935	24,980
CNHTC Ji'nan Investment Co., Ltd.	6,372	50,577
CNHTC Lease Firm	3,269	—
	234,306	254,464

	2007	2006
Sale of spare parts		
CNHTC Ji'nan Investment Co., Ltd.	443,466	243,829
CNHTC Ji'ning Commercial Truck Co., Ltd.	348,720	171,858
CNHTC Ji'nan Bus Co., Ltd.	7,438	8,396
CNHTC	3,994	4,335
CNHTC Taian Wuyue Special Truck Co., Ltd.	2,261	1,785
CNHTC Special Vehicle Company	1,062	—
	806,941	430,203

	2007	2006
Purchases of trucks		
CNHTC Special Vehicle Company	269,970	261,144
CNHTC Ji'nan Investment Co., Ltd.	134,191	114,752
CNHTC Taian Wuyue Special Truck Co., Ltd.	98,719	93,815
CNHTC Ji'nan Bus Co., Ltd.	1,496	450
CNHTC Ji'ning Commercial Truck Co., Ltd.	1,092	196
	505,468	470,357

(All amounts in RMB thousands unless otherwise stated)

36. RELATED PARTY TRANSACTIONS (Continued)

(a) Significant related party transactions (Continued)

(i) Significant transactions with related parties except for other state-owned enterprises (Continued)

	2007	2006
Purchases of spare parts		
CNHTC Ji'nan Investment Co., Ltd.	65,524	19,004
CNHTC Ji'nan Bus Co., Ltd.	57,451	13,923
Hangzhou Engine Factory	14,700	—
CNHTC Real Estates Company	10,390	—
CNHTC Taian Wuyue Special Truck Co., Ltd.	126	257
CNHTC Ji'ning Commercial Truck Co., Ltd.	125	—
CNHTC	104	—
CNHTC Special Vehicle Company	66	—
	148,486	33,184

	2007	2006
Sales of services		
CNHTC Special Vehicle Company	2,000	1,104
CNHTC Ji'nan Investment Co., Ltd.	388	155
Shandong Xin Hai Guarantee Co., Ltd.	74	—
CNHTC Ji'nan Bus Co., Ltd.	29	—
	2,491	1,259

	2007	2006
Purchases of services		
CNHTC	57,951	63,941
CNHTC Ji'nan Realty Management Co., Ltd.	8,982	20,444
Hangzhou Engine Factory	4,653	—
CNHTC Ji'nan Bus Co., Ltd.	2,569	2,680
CNHTC Ji'nan Investment Co., Ltd.	2,281	—
Ji'nan Automobile Test Center	1,282	7,735
CNHTC Special Vehicle Company	1,253	—
CNHTC Taian Wuyue Special Truck Co., Ltd.	577	—
	79,548	94,800

(All amounts in RMB thousands unless otherwise stated)

36. RELATED PARTY TRANSACTIONS (Continued)

(a) Significant related party transactions (Continued)

(i) Significant transactions with related parties except for other state-owned enterprises (Continued)

	2007	2006
Rental income		
Ji'nan Automobile Test Center	551	—
Shandong Xin Hai Guarantee Co., Ltd.	75	—
	626	—

	2007	2006
Rental expenses		
CNHTC	10,676	2,415
Hangzhou Engine Factory	10,432	4,026
	21,108	6,441

	2007	2006
Interest income		
CNHTC Real Estates Company	—	20,196
CNHTC	—	11,116
CNHTC Special Vehicle Company	—	2,551
CNHTC Ji'nan Investment Co., Ltd.	—	1,423
CNHTC Taian Wuyue Special Truck Co., Ltd.	—	1,407
CNHTC Ji'ning Commercial Truck Co., Ltd.	—	796
Shandong Xin Hai Guarantee Co., Ltd.	—	150
CNHTC Ji'nan Bus Co., Ltd.	—	26
Hangzhou Engine Factory	—	5,437
	—	43,102

	2007	2006
Deposits pledged as security for CNHTC issuing notes payables (Note 12)	—	375,000

	2007	2006
Outstanding loan guarantees for CNHTC (Note 31(b))	—	390,000

These transactions are carried out on normal commercial terms that are consistently applied to all counter parties.

(All amounts in RMB thousands unless otherwise stated)

36. RELATED PARTY TRANSACTIONS (Continued)

(a) Significant related party transactions (Continued)

(ii) Significant transactions with other state-owned enterprises

	2007	2006
Sale of trucks	273,251	193,768
Purchases of spare parts	3,559,391	2,674,402
Purchases of services	215,547	727
Interest expense on bank borrowings	145,692	117,715
Interest income from bank deposits	173,180	124,164

These transactions are carried out on normal commercial terms that are consistently applied to all counter parties.

(iii) Key management compensation

	2007	2006
Key management compensation		
Directors		
- Basic salaries, housing allowances, other allowances and benefits-in-kind	4,027	4,088
Senior management		
- Basic salaries, housing allowances, other allowances and benefits-in-kind	814	—
	4,841	4,088

(All amounts in RMB thousands unless otherwise stated)

36. RELATED PARTY TRANSACTIONS (Continued)

(b) Balances with related parties

(i) Balances with related parties except for other state-owned enterprises

	2007	2006
Trade and other receivables		
Trade receivables due from		
CNHTC Ji'ning Commercial Truck Co., Ltd.	46,450	55,892
CNHTC Ji'nan Investment Co., Ltd.	34,049	—
CNHTC Special Vehicle Company	873	445
CNHTC	300	—
CNHTC Ji'nan Bus Co., Ltd.	—	5,403
CNHTC Taian Wuyue Special Truck Co., Ltd.	—	4,123
CNHTC Sales Company	—	1,185
	81,672	67,048

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

	2007	2006
Trade receivables due from		
Less than 1 year	81,672	66,308
1 year to 2 years	—	—
2 years to 3 years	—	740
	81,672	67,048

	2007	2006
Other receivables due from		
CNHTC	63,688	7,121
Hangzhou Engine Factory	684	—
CNHTC Sales Company	—	3,679
	64,372	10,800

(All amounts in RMB thousands unless otherwise stated)

36. RELATED PARTY TRANSACTIONS (Continued)

(b) Balances with related parties (Continued)

(i) Balances with related parties except for other state-owned enterprises (Continued)

	2007	2006
Trade and other payables		
Trade payables due to		
CNHTC Special Vehicle Company	19,154	206
CNHTC Taian Wuyue Special Truck Co., Ltd.	1,230	3,003
CNHTC Ji'nan Bus Co., Ltd.	95	—
CNHTC Ji'nan Investment Co., Ltd.	52	—
Ji'nan Automobile Test Center	32	—
CNHTC Ji'ning Commercial Truck Co., Ltd.	—	3,729
Hangzhou Engine Factory	—	3,108
CNHTC Sales Company	—	948
	20,563	10,994

Ageing analysis of trade payables at respective balance sheet dates are as follows:

	2007	2006
Trade payables due to		
Less than 1 year	20,563	6,913
1 year to 2 years	—	4,081
	20,563	10,994

For the year ended 31 December 2007
(All amounts in RMB thousands unless otherwise stated)

36. RELATED PARTY TRANSACTIONS (Continued)

(b) Balances with related parties (Continued)

(i) Balances with related parties except for other state-owned enterprises (Continued)

	2007	2006
Other payables due to		
Sinotruk BVI	1,212	—
CNHTC Taian Wuyue Special Truck Co., Ltd.	1,000	529
CNHTC Sales Company	361	—
CNHTC Ji'ning Commercial Truck Co., Ltd.	49	—
CNHTC Ji'nan Realty Management Co., Ltd.	22	—
CNHTC	—	1,580,261
Hangzhou Engine Factory	—	163,704
	2,644	1,744,494

	2007	2006
Prepayments		
CNHTC Special Vehicle Company	18,915	5,929
CNHTC Ji'nan Investment Co., Ltd.	3,329	—
CNHTC Taian Wuyue Special Truck Co., Ltd.	1,357	287
CNHTC	—	4,922
CNHTC Ji'nan Bus Co., Ltd.	—	3,813
CNHTC Ji'ning Commercial Truck Co., Ltd.	—	3,512
	23,601	18,463

	2007	2006
Advances from customers		
CNHTC Taian Wuyue Special Truck Co., Ltd.	1,361	—
CNHTC Special Vehicle Company	651	366
CNHTC Ji'nan Investment Co., Ltd.	30	17,654
CNHTC Lease Firm	5	2,716
CNHTC Sales Company	—	706
	2,047	21,442

(All amounts in RMB thousands unless otherwise stated)

36. RELATED PARTY TRANSACTIONS (Continued)

(b) Balances with related parties (Continued)

(i) Balances with related parties except for other state-owned enterprises (Continued)

	2007	2006
Deposits from related parties		
CNHTC Special Vehicle Company	–	12,475
Hangzhou Engine Factory	–	3,896
CNHTC	–	493
CNHTC Taian Wuyue Special Truck Co., Ltd.	–	414
Shandong Xin Hai Guarantee Co., Ltd.	–	376
CNHTC Real Estates Company	–	16
CNHTC Sales Company	–	10
	–	17,680

The weighted average effective interest rate on deposits from related parties was 0.72% per annum for the years ended 31 December 2006 and 2007.

(ii) Balances with other state-owned enterprises

	2007	2006
Balances with other state-owned enterprises		
Trade receivables	32,455	35,471
Other receivables	48,578	55,697
Trade payables	131,847	111,857
Other payables	2,158	108,946
Prepayments	92,582	45,308
Advances from customers	16,469	996
Restricted cash	2,098,057	2,846,374
Cash and cash equivalents	10,076,797	2,321,258
Borrowings	5,361,615	7,295,799

37. EVENTS AFTER THE BALANCE SHEET DATE

Pursuant to the directors' resolution date 18 January, 2008, the Company is to increase its investment in Sinotruk Finance Company amounting to RMB 500,000,000. The transaction is subject to the approval of the China Banking Regulatory Commission and other related government authorities.

Five Years Financial Summary

RESULTS

	For the year ended 31 December				
	2003	2004	2005	2006	**2007**
	RMB000'	RMB000'	RMB000'	RMB000'	**RMB000'**
	Unaudited	Audited	Audited	Audited	**Audited**
Turnover	5,123,544	10,163,580	9,114,437	12,767,450	**21,297,372**
Profit before income tax	213,923	551,601	235,962	1,186,658	**1,888,764**
Income tax expense	(78,477)	(189,950)	(112,357)	(406,775)	**(500,806)**
Profit for the year	135,446	361,651	123,605	779,883	**1,387,958**
Attributed to:					
Equity holders of the Company	134,113	301,323	77,869	638,465	**1,109,185**
Minority interests	1,333	60,328	45,736	141,418	**278,773**
	135,446	361,651	123,605	779,883	**1,387,958**

ASSETS AND LIABILITIES

	As at 31 December				
	2003	2004	2005	2006	**2007**
	RMB000'	RMB000'	RMB000'	RMB000'	**RMB000'**
	Unaudited	Audited	Audited	Audited	**Audited**
Total assets	7,736,316	11,464,048	15,773,300	15,537,988	**24,165,530**
Total liabilities	10,492,187	12,752,240	17,175,913	13,952,955	**12,262,223**
Total equity	(2,755,871)	(1,288,192)	(1,402,613)	1,585,033	**11,903,307**
Attributed to:					
Equity holders of the Company	(2,776,523)	(1,641,626)	(1,806,179)	940,932	**10,987,079**
Minority interests	20,652	353,434	403,566	644,101	**916,228**
	(2,755,871)	(1,288,192)	(1,402,613)	1,585,033	**11,903,307**

中国重汽
SINOTRUK