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

Every Step Counts for Success

Annual Report 08


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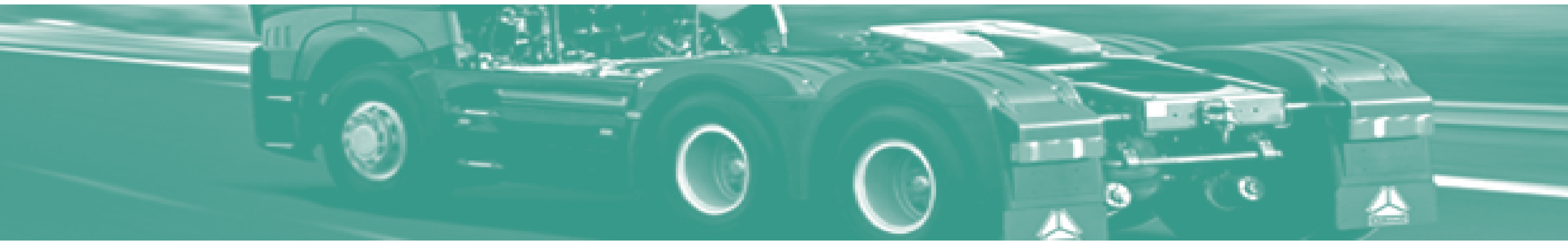


Highlights

KEY FIGURES

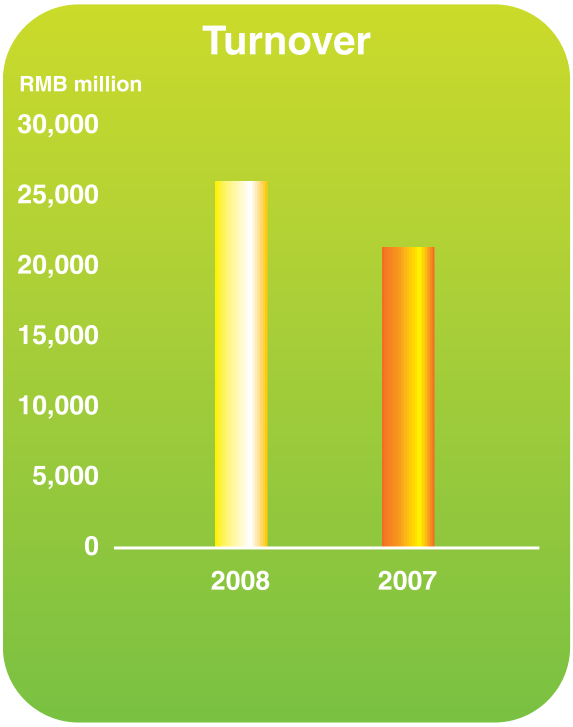
	2008	2007	Increase/ (Decrease)
Operating results (RMB million)			
Turnover	26,000	21,297	4,703
Earnings before interest and tax	1,538	2,110	(572)
Profit attributable to equity holders of the Company	881	1,109	(228)
Marginal profit/profitability (%)			
Gross profit margin	14.0%	18.3%	(4.3%)
Operating profit margin	4.8%	9.1%	(4.3%)
Net profit margin	4.3%	6.5%	(2.2%)
Liquidity ratios			
Current ratio (time)	1.4	1.7	(0.3)
Inventory turnover (days)	78.2	72.0	6.2
Trade receivable turnover (days)	42.0	51.1	(9.1)
Trade payable turnover (days)	91.6	84.5	7.1
Per share data			
Earnings per share - basic (RMB)	0.39	0.71	(0.32)
Dividend per share (HKD)	0.04	0.071	(0.031)
Share information *(Note)*			
Number of issued shares (million)	2,174	2,275	(101)
Market capitalisation (RMB million)	10,006	25,821	(15,815)

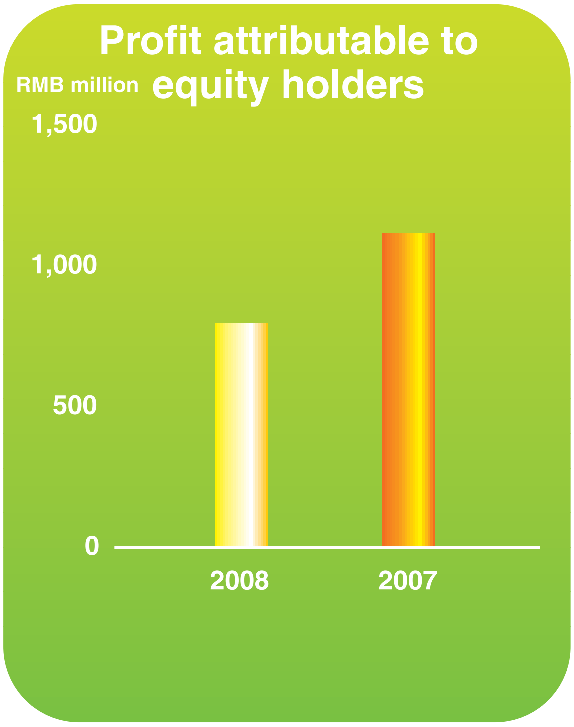
Note: Number of issued shares and market capitalisation are adjusted by exclusion of 101,693,500 shares repurchased but not yet cancelled

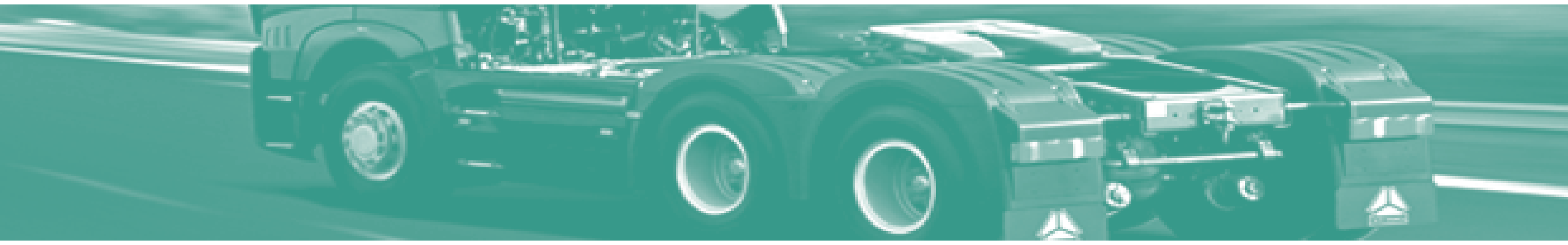
Highlights

Financial and Sales Volume Highlights

- Turnover increased by 22.1% to RMB26,000 million
- Heavy duty truck sales volume increased by 18.5% to 100,115 units
- Profit attributable to equity holders of the Company decreased by 20.6% to RMB881 million
- Earnings per share decreased by 45.1% to RMB0.39
- Proposed final dividend of HKD0.04 per share







Highlights

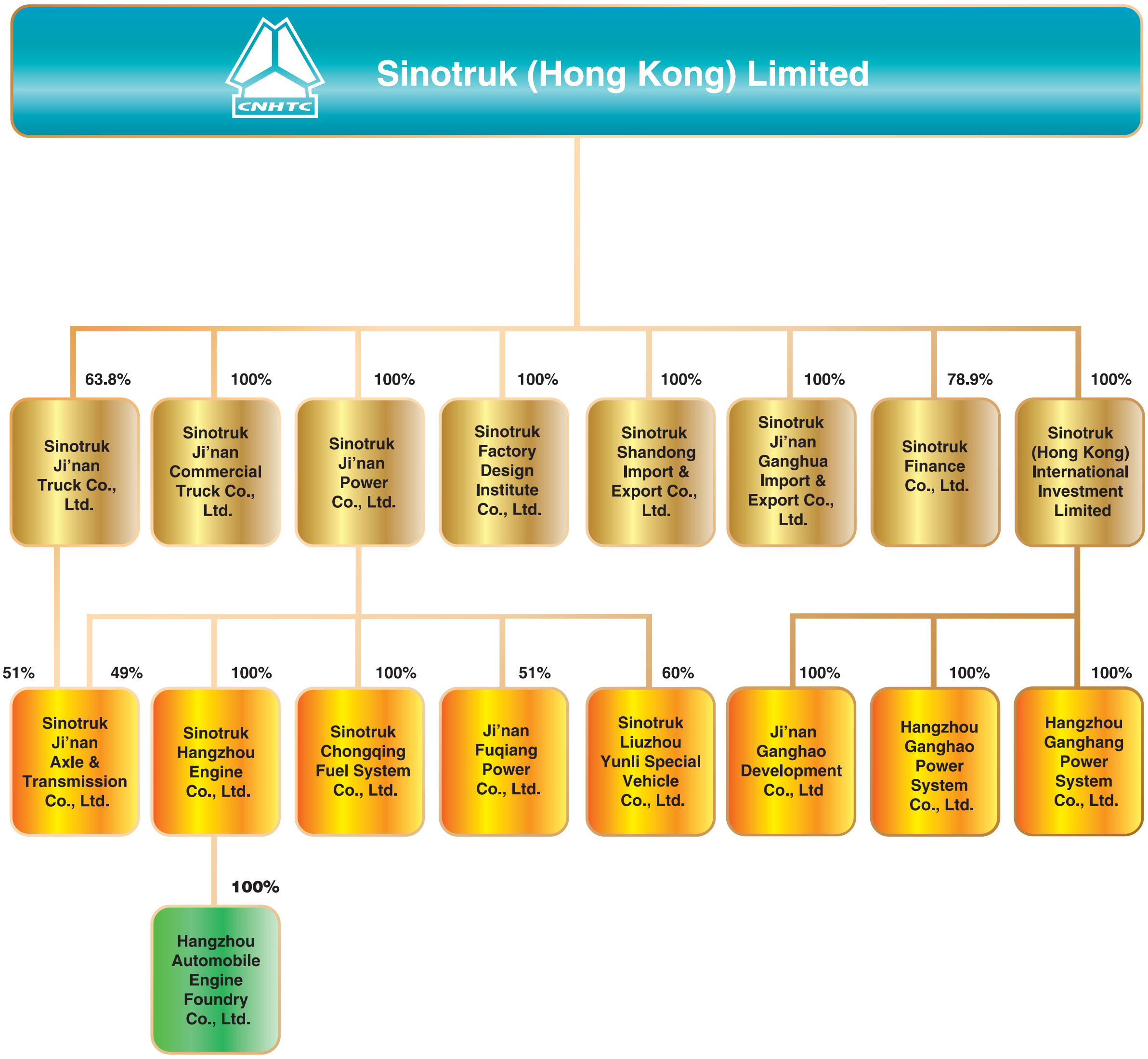
Other Highlights

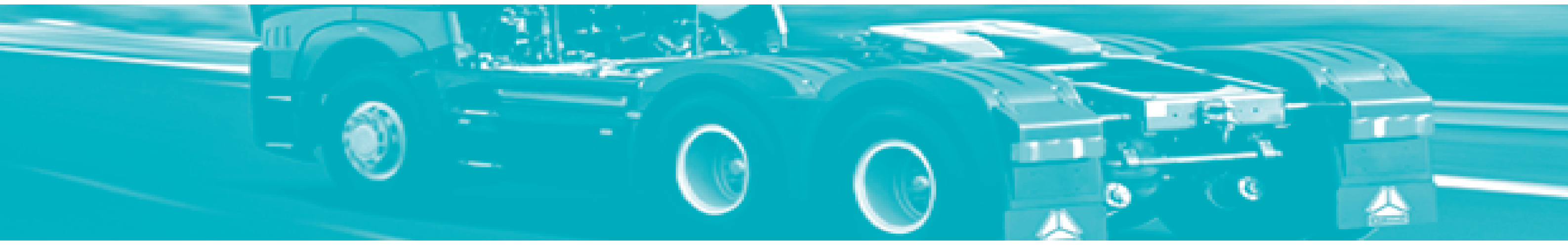
- The first to launch China III Emission Standard electronically controlled EGR engines in PRC
- Launch of the techologically most advanced semi-tractor HOWO-A7 in PRC
- The first to launch electronically mechanical AMT gearbox in PRC
- Annual production capacity at 150,000 units of trucks and 200,000 units of engines
- Full impementation of PPM quality control system
- Pass ISO's certification for automotive production TS16949
- 774 domestic distributors, and 4S centres increased from 120 to 150

Organisation Structure

Sinotruk (Hong Kong) Limited

As at 31 December 2008





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

STRATEGY AND INVESTMENT COMMITTEE

Ma Chunji *(Chairman)*
Cai Dong
Shao Qihui
Ouyang Minggao
Hu Zhenghuan
Wang Haotao
Wang Shanpo

AUDIT COMMITTEE

Lin Zhijun *(Chairman)*
Ouyang Minggao
Chen Zheng
Wang Guangxi
Tong Jingen

REMUNERATION COMMITTEE

Chen Zheng *(Chairman)*
Lin Zhijun
Li Xianyun
Wei Zhihai
Tong Jingen

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
Postal code: 250002

Corporate Information

COMPANY SECRETARIES AND AUTHORIZED REPRESENTATIVES

Tong Jingen
Kwok Ka Yiu

PRINCIPAL BANKERS

Industrial and Commercial Bank of China - Jinan Branch, Tianqiao Sub-branch
Bank of China - Jinan Branch
Agricultural Bank of China- Jinan Branch, Huaiyin Sub-branch
China Construction Bank - Jinan Branch, Tianqiao Sub-branch

LEGAL ADVISERS

Hong Kong

Sidley Austin

PRC

DeHeng Law Offices

AUDITOR

PricewaterhouseCoopers

COMPLIANCE ADVISERS

China International Capital Corporation Hong Kong Securities Limited
J.P. Morgan Securities (Asia Pacific) Limited

SHARE REGISTRAR

Computershare Hong Kong Investor Services Limited

COMPANY WEBSITE

www.sinotruk.com

Stock code

3808

INVESTORS RELATIONS

Securities Department

China: Tel (86) 531 8866 3808
Fax (86) 531 8558 2545
Hong Kong: Tel (852) 3102 3808
Fax (852) 3102 3812
Email: securities@sinotrukhk.com

PUBLIC RELATIONS CONSULTANT

Christensen
Tel (852) 2117 0861
Email: sinotruk@christensenir.com

Chairman's Statement

Dear Shareholders,

On behalf of the board (the "Board") of directors (the "Directors"), I would like to present the annual results for Sinotruk (Hong Kong) Limited ("Sinotruk" or the "Company"), and its subsidiaries (together, the "Group") for the financial year ended 31 December 2008 ("year under review").

Review

China's economy took a roller-coaster ride in 2008, and so did the country's heavy duty truck industry. In the first half of the year, rapid economic growth and the shift to China III emission standards that triggered earlier purchase of trucks boosted the domestic heavy duty truck market. Major manufacturers saw demand exceed their supplies. The whole industry sold 380,000 heavy duty trucks in the first half of 2008. However, China's economic growth decelerated in the second half. This, coupled with the global financial crisis, led to a decline in both domestic and overseas demand for China-made heavy duty trucks. Sales of China-made heavy duty trucks fell sharply to 160,000 units in the second half of the year. For the whole year, China's heavy duty truck industry shifted from exuberance to the doldrums.

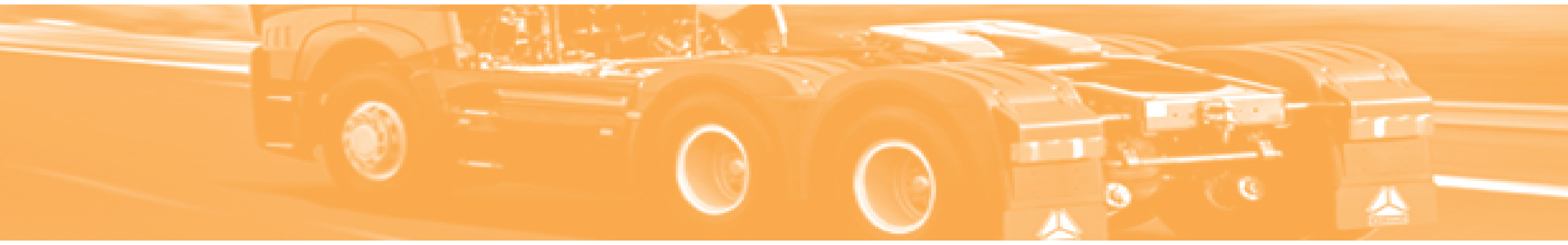
Against the backdrop of such a choppy market, the Group insists on development through innovation as its strategy. It continued to develop new technology and new products. The Group introduced the 2008 series to the market in the first half of the year, boosting sales. In the second half of the year, it seized emerging business opportunities by launching new models containing its proprietary electronic EGR (exhaust gas recirculation) engines to meet China III emission standards. As a result, the Group's market share increased despite the recession in the industry which resulted in most of the major heavy duty truck manufacturers seeing abrupt declines in their sales.

Blaze a trail with innovation to capture opportunities

In 2009, we are facing new challenges and opportunities. We are confident and determined in coping with the challenges and in turning them into opportunities for our development. However volatile the situation might be, we will not change our course of development and will march forward unceasingly. We will continue to consolidate our leading position in the industry. We will do our best to accomplish the works in 2009 to ensure that Sinotruk has an even brighter future.

Ma Chunji
Chairman

馬純濟



Chairman's Statement

According to the China Association Of Automobile Manufacturers (CAAM)(中國汽車工業協會), the Group and its parent company together sold 111,424 heavy duty trucks (of 14 tonnes or above) in 2008, accounting for 20.62% of the domestic market. The Group and its parent company together maintained their status as China's largest heavy duty truck maker by sales volume for the second consecutive year.

In the year under review, the Group's turnover rose by 22.1% to RMB 26,000 million, while its net profit attributable to equity holders decreased by 20.6% to RMB 881 million. The decrease in net profit was due to i) exchange losses arisen from the HKD proceeds from initial public offering in November 2007 and from foreign currencies receipts in export sales; ii) the sharp increases in the cost of steel and plastics; iii) the enhancement of truck accessories and iv) the significant decrease in total sales during the second half of 2008. Earnings per share decreased by 45.1% to RMB0.39 due to the dilution effect of the Company's initial public offering in 2007 and the decrease in profit. In addition, as of the time this annual report was compiled, the Company had bought back 113,268,500 of its own shares, which were 4.98% of the total number of its issued shares.

In view of the Group's stable financial performance and good financial position as compared with the industry amid the global financial crisis, as well as the optimistic anticipation of the sustained development of the Company, the Board recommended a final dividend of HKD 0.04 per share for the financial year ended 31 December 2008. The Company will continue to work hard to improve returns for shareholders and investors.

In the year under review, the Group made progress with all of its businesses. It insisted on its strategy of maintaining a competitive edge through innovation, and worked hard to be a pioneer in the development of heavy duty truck technology. As a result, the Group became an industry leader by continually supplying new products of high quality to markets. Apart from the 2008 series models and the China III emission standard models which contain the proprietary electronic EGR engines, the Group also launched the most advanced HOWO-A7 model in December last year. This model was the result of three years of research and development. Meanwhile, the Group also introduced to the market 2009 series models which included many types of advanced technology, ushering the heavy duty truck industry into a new era.

The Group's leadership in product and technology stems from its immense strength in research and development. Its technical center is a nationally accredited heavy duty truck research and development institute and has a leading position in the field. As at the end of the year under review, the Group and its parent company together ranked first in the domestic industry in terms of the accumulated number of the state-approved patents obtained. They had 903 patents approved by the state.

The Group continued to improve its quality assurance system by implementing the PPM (Parts Per Million or Perfect Products Management) quality management system. It also cooperated with internationally renowned car part

Chairman's Statement

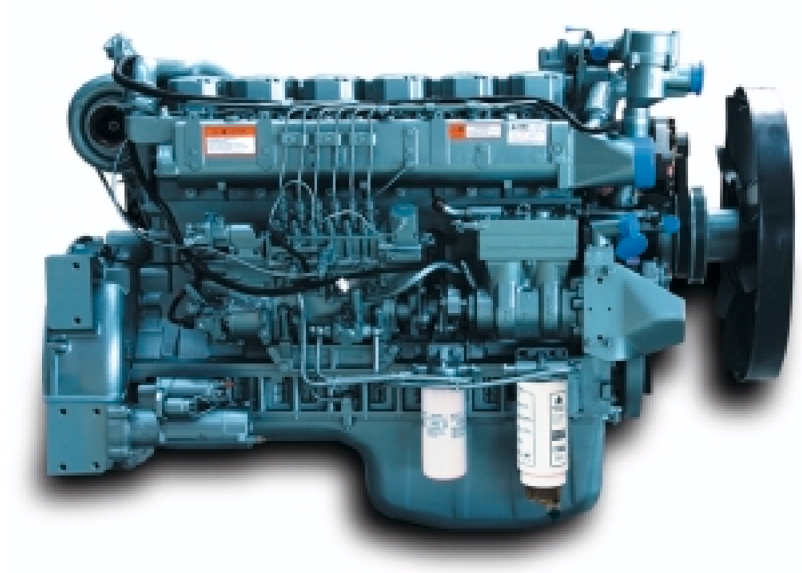
manufacturers through global sourcing of key parts and components, which enhanced the quality of finished trucks.

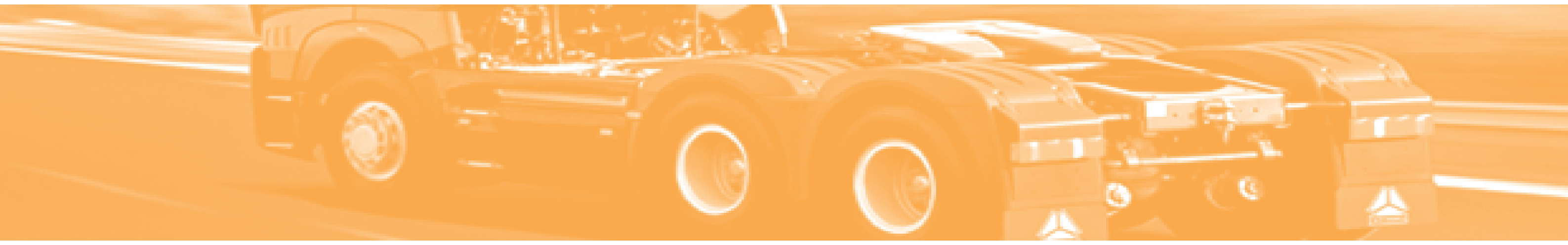
The Group increased investment in technological upgrades for enhancement in the production technology and capacity and product quality of finished trucks, engines, axles and cast and forged parts. The production plan and capacity became more aligned to market demand.

The Group expanded and strengthened its domestic and overseas sales networks, after-sales service network and component system, establishing a solid sales network. In 2008, the Group acquired Liuzhou Yunli Special Vehicle Co., Ltd. (柳洲遠力專用汽車有限公司) ("Liuzhou Yunli") and signed a letter of intent to acquire Hubei Huawei Special Vehicle Manufacturing Co., Ltd. (湖北華威專用汽車有限公司) ("HuBei Huawei") (as at the date hereof, the acquisition has been completed) with an aim of beefing up the Group's capability for refitting in central and southwestern China. Such moves have resulted in a complete value chain of heavy duty truck production.

Sinotruk enhanced its corporate governance and compliance to prevent risks with its operation. It hired renowned advisers to assist it in redesigning the work flow of some key procedures and in improving its internal control system. It reviewed and revised the management system according to the requirements of the internal control system. It also established a legal advisory system to ensure that the Group operates in compliance with the laws and regulations.

Corporate social responsibility is the cornerstone of the sustainable development of a corporation. The Group actively shouldered the social responsibility of a corporate citizen while achieving outstanding business results. Immediately after the earthquake occurred in Wenchuan, Sichuan province in May, the staff of the Group proactively assisted the parent company in organizing rescue and relief activities. In the China Charity Awards for 2008 organized by the Ministry of Civil Affairs, the Group's parent company received the "China Charity Award". In the Shandong Citizens and Corporations with a Sense of Public Responsibility Award 2008, the parent company was also rated as one of the "Top Ten Shandong Corporations with a Sense of Public Responsibility". In order to fulfill its social responsibility, the Group will try its best to ensure growth, livelihoods and social





Chairman's Statement

stability in the face of the challenging economy. It will also continue to do its best in customer rights protection, energy saving, safe production and the protection of employee interests.

Prospects and Strategy

In November 2008, the Chinese government adopted ten timely measures to stimulate domestic demand in order to cope with the challenges posed by the global recession. It then followed up with a plan to bolster the country's ten key industries. According to the latest economic data released by the Chinese authorities this year, the domestic economy began showing signs of recovery as compared with the economic slump at the end of 2008. The effects of the economic stimulus package have begun to emerge. We believe China's economy will maintain its growth momentum for the following reasons: the Chinese government is confident and determined in maintaining fast and stable economic growth; it backed up its determination with a series of prompt economic policies; China has a strong economic foundation; and the country has huge market potential.

Of the economic stimulus package, infrastructure construction accounts for a significant portion of the planned investments. This will generate more demand for heavy duty trucks, benefiting the heavy duty truck industry. On the other hand, the market shares of the major heavy duty truck manufacturers have become ever more concentrated after the industry's rapid growth in the past several years. The current slowdown in demand will accelerate this trend. In March 2009, the state came up with the "Plan to Adjust and Revive the Automotive Industry" to support industry leaders carrying out

Chairman's Statement

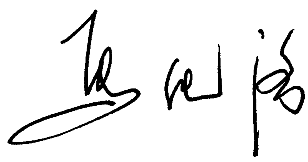
mergers and acquisitions and restructurings. The Group's parent company has also been selected by the Chinese government for support. Meanwhile, the global financial crisis has hit the automotive industry hard worldwide, generating opportunities for the Group to cooperate and exchange with the world's leading automotive makers. We will closely monitor the latest developments in the heavy duty truck industry both at home and abroad with a view to seeking opportunities for industry consolidation and international cooperation. We will also aim to enhance the Group's core competitive strengths and increase its market share. This will reinforce our leadership in the domestic market as well as enable us to achieve breakthroughs in businesses related to our core heavy duty truck operations.

In the long term, the Group aims to become one of the world's leading heavy duty truck makers, helping to revive China's industry.

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, 20 April 2009

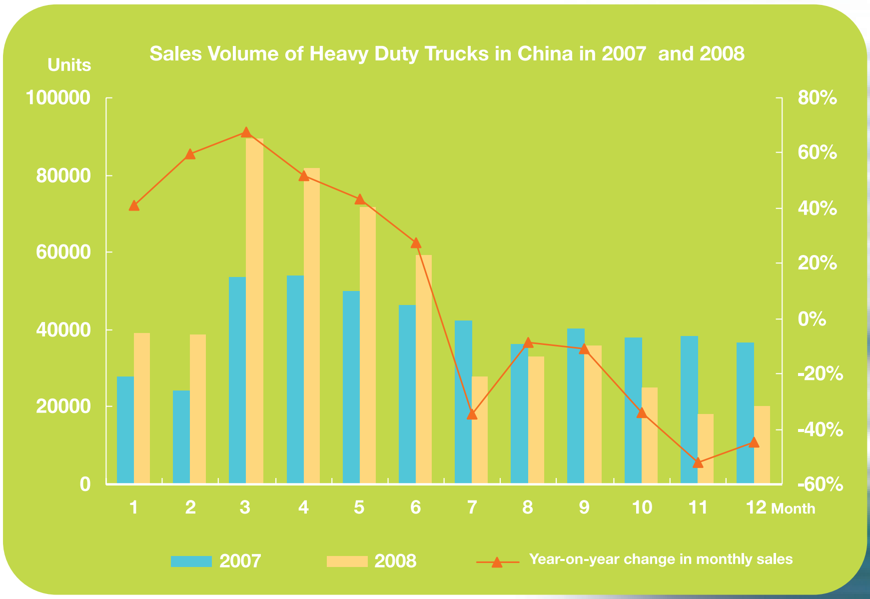
Marching Forward

Management Discussion and Analysis

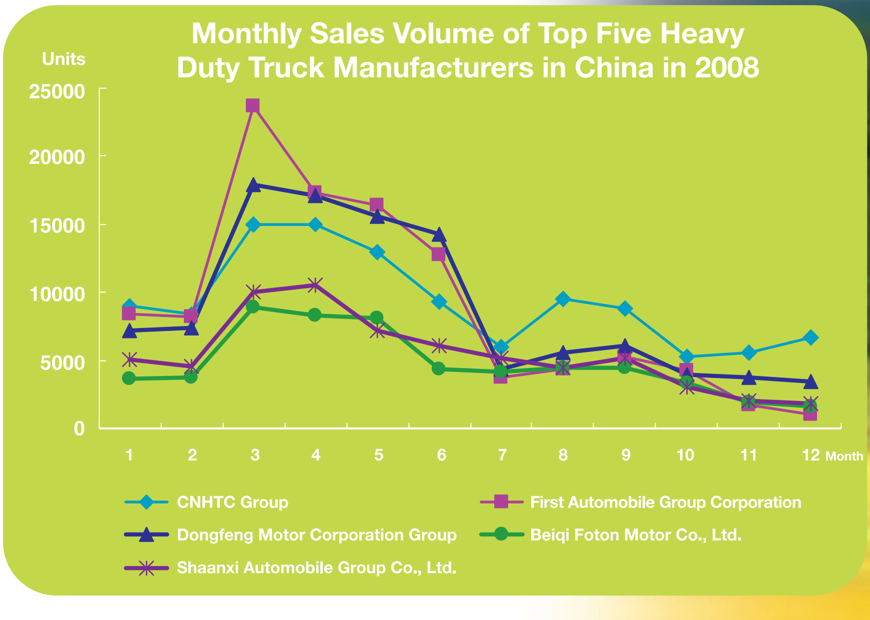
Market Overview

In the first half of 2008, China's economy continued fast growth. Fixed asset investment also registered high growth. The favourable economy and the shift to China III emission standards that triggered earlier purchase of trucks stimulated demand for heavy duty trucks. During March and April, demand exceeded supply in China's heavy duty truck market, with the monthly sales increasing 50% year on year. In March, sales hit a record high of 90,000 units. The whole industry sold 380,000 heavy duty trucks in the first half of 2008, or 48.6% more than in the same period in the previous year. The country's major heavy duty truck manufacturers were producing at full capacity to satisfy the demand. As a result, production capacity determined truck manufacturers' market shares.

However, China's economic growth decelerated in the second half of 2008 as a result of the state's macroeconomic control measures. This, coupled with the global financial crisis triggered by the United States' sub-prime mortgage crisis, led to a decline in both domestic and overseas demand for China-made heavy duty trucks. Sales of China-made heavy duty trucks fell sharply to 160,000 units in the second half of 2008, or 30.8% less than in the same period of 2007.



Source: China Association of Automobile Manufacturers (CAAM)



Source: China Association of Automobile Manufacturers (CAAM)

Nevertheless, the rapid growth in heavy duty truck sales in the first half of 2008 more than offset the slowdown in the second half of 2008. This resulted in a 10.87% growth in sales to 540,000 units for the whole year.

Review of Operations

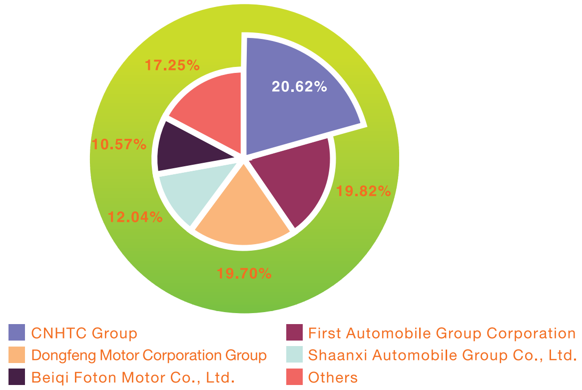
Truck:

In the year under review, the Group's heavy duty truck sales grew by 18.5% to 100,115 units. Truck sales (including sales of components and internal consumption) increased by 21.1% to RMB 24,421 million.

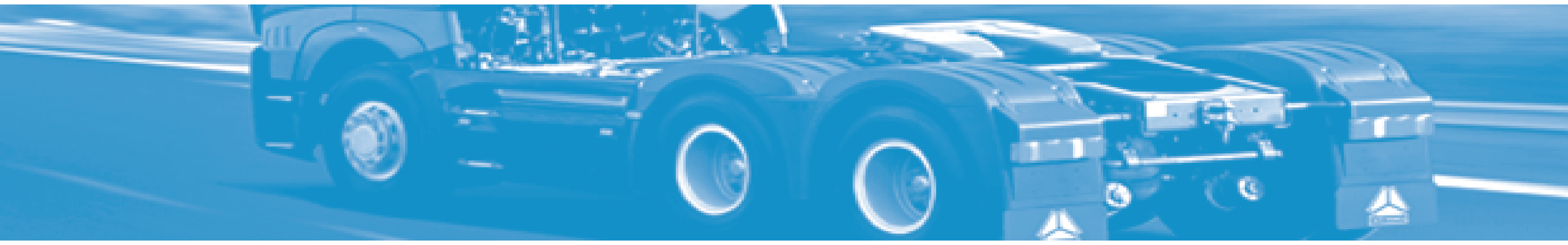
Domestic Business

The Group capitalised on the fast growth of the country's heavy duty truck industry in the first half of 2008 by accelerating the pace of new product launch and new technology application. It introduced 2008 models in a timely manner boosting the growth in the orders for the products. The Group received monthly orders for 30,000 heavy duty

Top Five Heavy Duty Truck Manufacturers in China by Market Share in 2008



Source: China Association of Automobile Manufacturers (CAAM)



Management Discussion and Analysis

trucks during March and April of 2008. The fast growth in the orders for heavy duty trucks exceeded our original estimate by a wide margin. Although the Group had already completed a lot of preparation work to expand production capacity, our production capacity was once again a bottleneck. Monthly heavy duty truck production volume hit a record of 15,000 units in March and April, fulfilling just half of the orders received. The loss of a large number of the orders affected the growth of our market share. The Group and its parent company saw their combined market share slip from the number one position in 2007 to third place in the first half of 2008. In the second half of 2008, the Group broke the monopoly of foreign technology by successfully developing the electronic EGR engine to meet China III emission standards. We also introduced into the market 2008 series models which contained our proprietary electronic EGR engine. The new product's high quality and cost efficiency and our overall competitive strength enabled the Group to seize business opportunities in the market despite the unfavourable market conditions. The Group was ahead of its peers by a wide margin in monthly sales in the second half of the year. Its market share also grew. The Group and its parent company saw their combined market share go back to the number one position by the end of 2008.

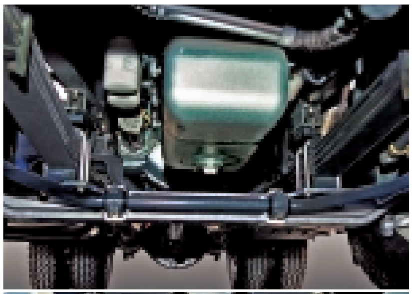
The Group's strong and large sales network helped it to expand its market share every year. In 2008, the Group established a solid sales network and strengthened its domestic and overseas sales networks, after-sales service network, component sales network and refitting business network. It also made greater efforts to build 4S centers (4S centers: independent shops that sell the Group's trucks and components, provide after-sales services and gather market intelligence). The Group carried out a series of sales activities and customer visits to provide more support to its regional sales networks. It also put emphasis on after-sales services by increasing the supply of components to new models before their launch into market as well as by providing systemic training for after-sales staffs. The Group made progress with the establishment of a refitting business network. In 2008, the Group has acquired Liuzhou Yunli and signed a letter of intent to acquire Hubei Huawei with an aim of beefing up the Group's capability for refitting in central and southwestern China (as at the date hereof, the acquisition has been completed). Presently, the Group has 774 distributors, including 150 4S centers. There are 867 repair shops providing quality after-sales services for customers using the Group's products. Moreover, there are 634 component distributors

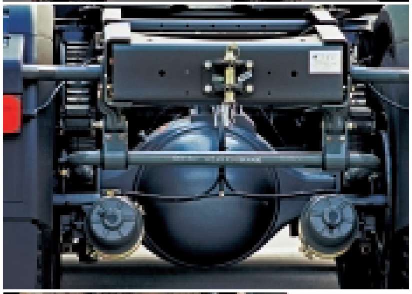
Management Discussion and Analysis

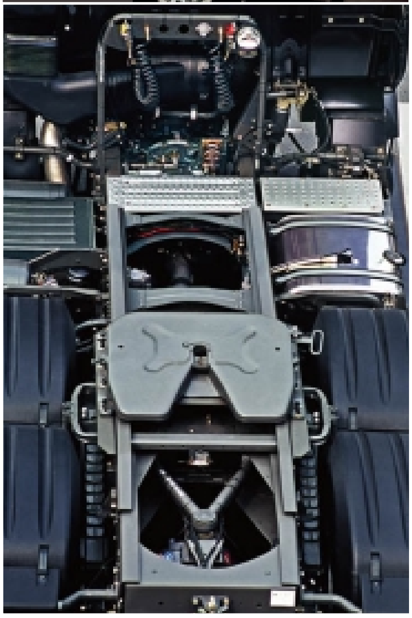
selling the Group's products, and 203 refitting enterprises providing refitting services for customers using the Group's trucks. All these outlets are part of the Group's nationwide sales network. The Group also has taken advantage of its financial strength by starting a truck financing business.

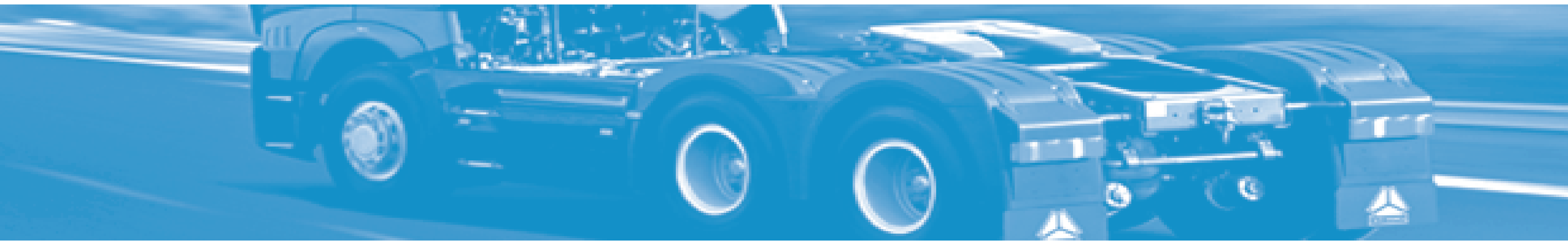
International Business

In 2008, the Group continued to step up efforts to expand overseas markets, build its brand and develop its sales network. It has established business relationships with more than 60 overseas distributors, exporting its products to more than 90 countries and regions. It also has more than 400 overseas distribution services outlets. In the year under review, the Group exported 15,643 heavy duty trucks, or 0.5% lower than in the previous year. The Group's exports were affected by the changes in the global economy. Its five major export markets experienced ups and downs which offset each other. The markets of Africa and Central and South Americas were growing, and accounted for more than 50% of the Group's export volume. In the first half of 2008, prices of bulk purchase of minerals were surging upon rising demand. This boosted the income of the mineral-producing and processing African countries. The African countries used the increased income to accelerate their economic development, stimulating their demand for heavy duty truck imports. The fast economic development of the emerging markets in Central and South Americas also generated great demand for heavy duty trucks. However, the markets in Southeast Asia, the Middle East and Russia were affected by such factors as the global financial crisis and product certification. Exports to these regions slowed down or even decreased. In 2009, there is great potential for the Group's exports. Its export markets are mainly developing countries, which are less affected by the global financial crisis, and are carrying out large infrastructure construction









Management Discussion and Analysis

projects to support their economic development. These markets have huge potential and present opportunities to the Group's export business.

New Products

In 2008, the Group made great progress with its new product development. It launched 2008 series models at the beginning of the year, with the successful development of the HW gearbox as its technological breakthrough. As a result, the Group achieved completeness in production capability and technology for its whole range of key components and parts including truck body, frames, suspension systems, engines, gearboxes, and front and rear axles. The cost efficient 2008 series models boosted the Group's market share.

The Group developed the electronic EGR engine to meet China III emission standards in the middle of 2008. The product enabled the Group to capitalize on the change in the country's emission standards. Sales of trucks containing electronic EGR engines have been increasing since their market launch. The EGR engine was crucial in expanding the Group's market share in the second half of 2008.

At the end of 2008, the Group launched the HOWO-A7 tractor truck, which had the most advanced technology in the country, and the new 2009 series models with technological upgrades. The new models contained technologically advanced components and parts such as new fuel-saving engines, China's innovative disc brakes, proprietary AMT gear box and new suspension systems. In particular, the successful development of the AMT electronically mechanical automatic gear box ushered China into an age of heavy duty trucks with automatic gear boxes, bringing China's heavy duty truck technology to the most advanced level in the world. We believe the introduction of these new models marked a milestone for the development of the country's heavy duty truck technology, and brought business opportunities to the Group. This will also reinforce the Group's leadership in the industry's technological development. Presently, the Group can offer 649 China III emission standard models to satisfy the various needs of the customers. It will continue to develop new products to meet new demands.

Production Capacity Expansion

The Group's production capacity was a bottleneck again in the first half of 2008. Although the Group had already been increasing its production capacity every year in its efforts to satisfy demand, the growth in the demand for the Group's products exceeded the expansion of its production capacity. As a result, the shortfall led to the loss of a large number of the orders. The fast growing demand translated into a potential opportunity for the Group to expand its market share. In 2008, the Group's capital expenditure on fixed and intangible assets was RMB2.79 billion, including investment in technological upgrades to enhance the production technology and capacity and product quality of finished trucks, engines, axles, and cast and forged parts. Presently, the Group has established more than 20 production lines for heavy duty truck assembly and key part production. The Group has production bases and research and development centres for heavy duty trucks, engines, gear boxes and axles in Jinan and an engine production base in Hangzhou. It has annual production capacity of

Management Discussion and Analysis

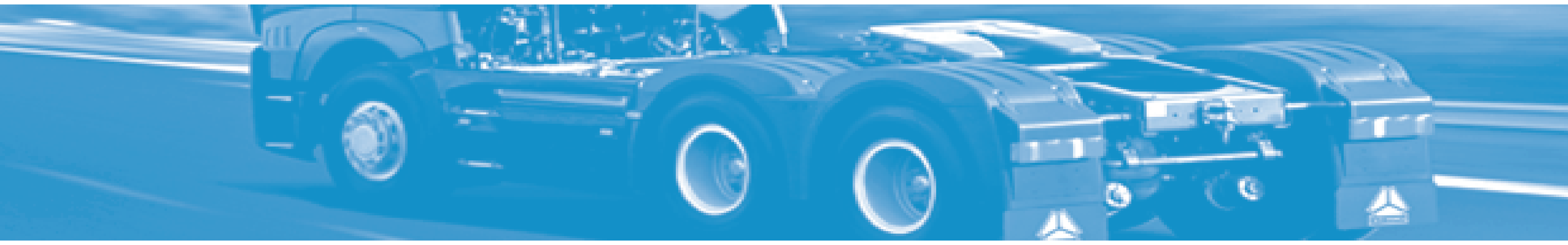
150,000 trucks and 200,000 engines. The production plan and capacity became more aligned to market demand.

Quality Enhancement

The Group regards product quality as the key to an enterprise's survival and development. Its strategy for quality is continuous enhancement. It insists on the principle of "producing quality products with integrity and selling quality products to market". In 2008, the Group tightened the control on the key production procedures and applied quality testing technology at the production line. It also fully implemented the PPM (Parts Per Million) quality management system. The Group's main production units have all passed ISO's certification TS 16949 for the international car industry. The quality of finished trucks was enhanced, leading to a more than 40% decrease in problems occurring after sales. As such, the Group's products are well recognised and trusted by the customers. In addition, the Group sources key parts globally through cooperation with the world's leading car parts manufacturers including Voss Automotive GmbH. It also encourages the international car parts makers to establish factories in Jinan in order to help further localize the truck production. The move has effectively reduced production costs and enhanced product quality.

Technological Innovation

The Group insists on the strategy of maintaining competitive strength through technological innovation and has been increasing investment in product research and development as well as technological upgrades. It has built a technological innovation system based on its technical centre with the goal of developing new products and new production technology. Presently, the Group and its parent company have established 24 standards for China's heavy duty truck industry. It has also undertaken more than 20 technological upgrade projects at national, provincial and municipal levels. The Group has received eight awards for technological advancement from provincial and municipal governments and ministries for two



Management Discussion and Analysis

projects in the State Plan 863 and two state-level projects for technological support. The Group saw 18 of its staff honoured with the title of "the leading talent in provincial technology" and 118 of its staff honoured with the title "leading technological experts" or "leading young technological experts". The Group and its parent company together have applied for 1,099 patents, and have been granted 903 patents. They continued to rank first in the domestic heavy duty truck industry in terms of the number of patents owned. Four of the Group's subsidiaries including Jinan Power were recognised as "state-level new and high technology enterprises". The Group also enhanced its capability for innovation through international cooperation and exchange.

Engines:

Sales volume of engine segment rose by 10.9% to 112,990 units, and engine sales (including sales of components and internal consumption) increased by 18.2% to RMB 6,298 million. External sales accounted for 26.0% of the Group's engine sales.

Finance and Others

In 2008, external income at the Group's finance segment increased by RMB103 million to RMB116 million, compared with RMB13 million recorded in 2007. The increase was mainly due to the growth in its discounting bill business and the introduction of the truck financing business.

Other external income also increased by RMB8 million to RMB10 million, compared with RMB2 million recorded in 2007. The growth was mainly due to the increase in provision of design and supervision services.

Prospects

At the end of 2008, the Chinese government adopted a timely economic stimulus package of RMB 4 trillion with the aim of ensuring China's stable economic growth and coping with the impact of the global financial crisis on the domestic economy. Meanwhile, the Chinese government mapped out a plan to support the pillar industries' development, and in particular, it came up with a plan to revive the automotive industry. It also promptly started a number of infrastructure construction projects. As the large infrastructure projects such as the construction of railways, highways and airports begin, and as fuel tax and fee reforms and the value-added tax transformation policy are enacted, the heavy duty truck industry will become one of the early beneficiaries.

In 2009, the Group will continue to adhere to the scientific outlook on development and will actively cope with the challenges posed by the global financial crisis. It will also strive to expand its market share by taking advantage of its strengths in new products, technological innovation, quality enhancement, production capacity, distribution network and finance. It will enhance its core competitive and overall strengths as well as the standard of its management and staff quality to prepare for a new round of competition.

In order to realise the above-mentioned goals, the group will continue to develop its distribution system and a solid sales network with Sinotruk's characteristics. It will also adopt a more flexible business strategy to develop new markets. The Group will also take advantage of its financial strength by developing a truck financing business. It opens the truck financing business jointly with PICC Property and Casualty Co., Ltd. (中國人民財產保險股份有限公司) and China Pacific Insurance (Group) Co., Ltd (中國太平洋保險(集團)股份

Management Discussion and Analysis

有限公司) to provide truck loans to individuals and end-users at corporations. The insurance firms provide insurance for the truck loan contracts. In addition, it will raise the standards of its staff and quality of its products. It will strive to become an international standard enterprise through more frequent cooperation with foreign partners.

Financial review

Turnover, gross profit and gross profit margin

The Group saw significant growth in the year ended 31 December 2008. With strong growth in truck sales in the first half of 2008, turnover rose by RMB4,703 million or 22.1%, to RMB26,000 million in 2008 (2007: RMB21,297 million). Gross profit dropped by RMB262 million or 6.7%, to RMB3,641 million (2007: RMB3,903 million). Gross profit margin was 14.0% (2007: 18.3%). The decreases in gross profit and gross profit margin were due to the sharp increases in the cost of steel and plastics, the enhancement of truck accessories, as well as the decrease in sales during the second half of 2008.

Distribution costs

Distribution costs increased from RMB1,141 million for 2007 to RMB1,371 million for 2008, rising by RMB230 million or 20%. Distribution costs, however, had a lower increase rate than the sales. The increase was attributable to (i) the growth in sales and the rise in fuel prices that led to higher delivery expenses and (ii) the Group's higher sales that led to higher warranty expenses.

Administrative expenses

Administrative expenses increased from RMB806 million for 2007 to RMB986 million for 2008, growing by RMB180 million or by 22%. The increase was mainly attributable to (i) more bad debts have been provided for prudence purpose the fact that international financial crisis leads to higher credit risk from international business; (ii) the Group's business expansion that led to a rise in administrative expenses and (iii) the increase of stamp duty, property tax and land use tax.

Other losses - net

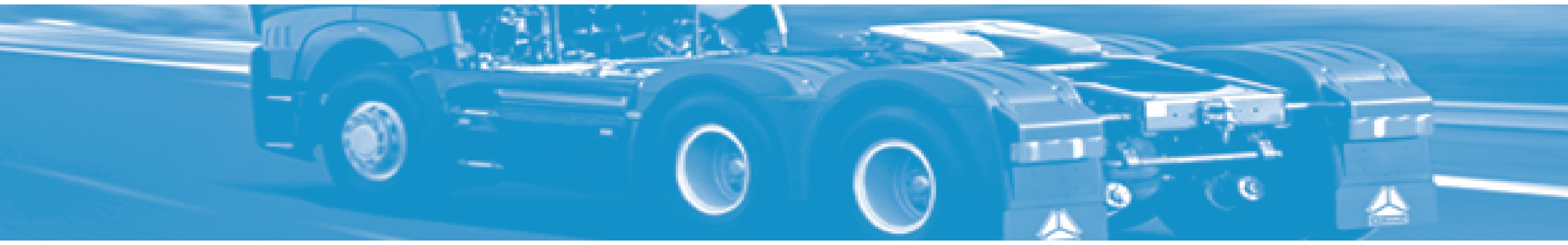
Net other losses were RMB36 million in 2008. In 2007, there was a net expense of RMB18 million. The main reason for the loss was due to significant increases of foreign exchange losses arising from the appreciation of RMB.

Financial income - net

For the year ended 31 December 2008, net financial income was RMB50 million. The net financial income was mainly due to the rise of deposits interest income, the reduction of bill discount interest expense and the change of loan structures. In 2007, net finance costs was RMB48 million.

Income tax expense

Income tax expense decreased by 63% to RMB186 million in 2008 from RMB501 million in 2007. The decrease was due to i) the waive of income tax for the tax revaluation gain; ii) the reduction of the income tax rate in China from 33% to 25% beginning 1 January 2008; iii) some subsidiaries of the Group were recognised as high technology enterprises, whose income will be taxed at a rate of 15% for three years from 2008 and iv) the decrease in operating profits. In 2008, the effective corporate income tax rate applied to the Group was about 14%, compared with 27% in 2007, a reduction of about thirteen percentage points.



Management Discussion and Analysis

Profit for the year and earnings per share

Profit for the year ended 31 December 2008 decreased by 20% to RMB1,113 million from RMB1,388 million in 2007. The basic earnings per share attributable to the equity holders of the Company in 2008 decreased by 45.1% from RMB0.71 in 2007 to RMB0.39 in 2008. The decrease in the basic earnings per share attributable to the equity holders of the Company was mainly due to the weighted average number of ordinary shares increased to 2,268 million shares in 2008 from 1,565 million shares after the Company's initial public offering and decrease in profit.

Net Proceeds from the 2007 Initial Public Offering ("IPO")

The Company was successfully listed on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") in 2007. The net proceeds from the Offering are used as follows:

Planned usage	**Planned usages** HKD million	**For the year ended 31 Dec 2008** HKD million
Expand the engine manufacturing capacity and enhance the technology level of Sinotruk Hangzhou Engine Co., Ltd. in the Xiaoshan district of Hangzhou	1,200.0	495.4
Expand the forging capacity and enhance the technology level at Sinotruk Ji'nan Power Co., Ltd. in the Zhangqiu district of Jinan	800.0	780.7
Expand the truck manufacturing capacity and enhance technology level at Sinotruk Ji'nan Truck Co., Ltd.	700.0	486.3
Expand the truck manufacturing capacity and enhance technology level at Sinotruk Ji'nan Commercial Truck Co., Ltd.	600.0	439.0
Research and development	1,232.7	291.5
Domestic and overseas market expansion	1,056.6	149.1
Repay loans	2,897.8	2,897.8
Use as general working capital	943.0	937.2
	9,430.1	6,477.0

The Group's expenses on research and development are on par with those of other major peers. As the Group booked part of the research and development expenses under the cost of production, the actual expenses on research and development were larger than the sum stated above. In the table above, of the capital expenditure for expanding the forging capacity and enhancing the technology level at Sinotruk Jianan Power Co., HKD138.8 million was used for purchasing equipment for technological development. Of the capital expenditure for expanding the truck manufacturing capacity and enhancing technological level, HKD462.0 million was used for purchasing equipment for technological development.

Cash flow

During 2008, net cash outflow from operating activities was about RMB944 million (there would have been a cash inflow of RMB480 million if the increase of RMB1,424 million of bank acceptance bills is considered). Compared with cash inflow of RMB1,235 million in 2007 from operating activities, the increase in cash outflow was RMB2,179 million. The cash outflow was mainly attributable to (i) an array of bank's acceptance bills collected from sales. As at 31 December 2008, the Company recorded unexpired bank acceptance bills of RMB2,118 million (as at 31 December 2007: RMB694 million) and (ii) the increase of inventories of raw materials and semi-finished goods for peak season preparation.

Net cash outflow from investing activities was RMB2,715 million, an increase of RMB1,394 million compared to that of previous year. The increase was mainly due to the capital expenditure for production expansion.

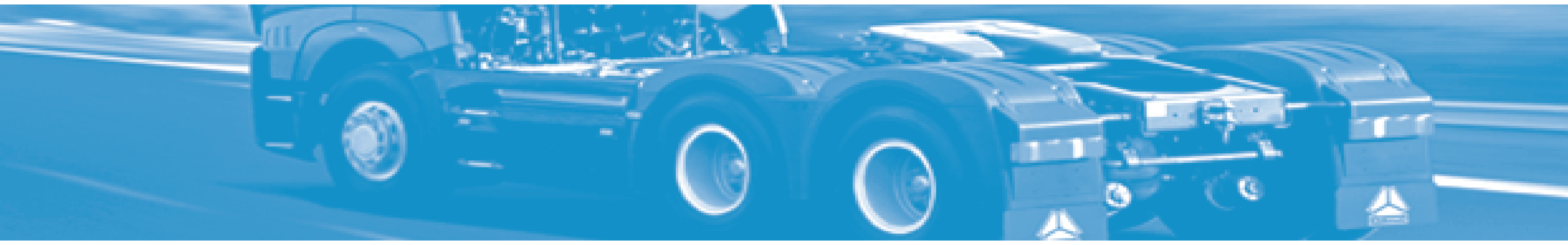
In 2008, net cash inflow from financing activities was RMB315 million, a decrease of RMB7,629 million compared to the previous year. The decrease was mainly due to the large cash inflow from the IPO in 2007.

Liquidity and Financial Resources

The Group had cash and cash equivalents of RMB6,721 million and bank acceptance bills of RMB2,118 million at the end of 2008. Cash and cash equivalents recorded a net decrease of RMB3,356 million, while bank acceptance bills recorded a net increase of RMB1,424 million as compared with those at the beginning of 2008. The Group's total borrowings (including long-term and short-term

borrowings) were about RMB8,025 million at the end of 2008. Its gearing ratio was 28%, which was calculated by dividing borrowings by total assets. Renminbi borrowings accounted for 99.8% of the total borrowings. The remainder is denominated in HKD. Most of the borrowings had floating rates, which were lower than the bank benchmark interest rate, and were due within one year. The current ratio (total current assets divided by total current liabilities) was 1.4, compared with 1.7 at the end of 2007.

As at 31 December 2008, total available credit facilities amounted to RMB13,235 million, of which



Management Discussion and Analysis

RMB6,634 million had been utilised. A total net book value of RMB3,722.9 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 issued short-term commercial papers.

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 2008, most of the Group's assets and liabilities were denominated in RMB, except for bank deposits of foreign currencies which are equivalent to approximately RMB534 million, accounts receivable of approximately RMB596 million, borrowings of approximately RMB12 million and accounts payable of approximately RMB 9 million which were denominated in foreign currencies.

During 2008, the Group recorded losses of about RMB198 million from foreign currency exchange because of appreciation of RMB. As the Company's dividend is mainly dependent on the profits from the subsidiaries operated in the PRC, the management believes the continuing appreciation of the RMB against other currencies is favourable to its overseas shareholders. The strong RMB position against the HKD may allow the shareholders to receive higher dividend denominated in HKD.

Capital Structure

At the end of 2008, owner's equity was RMB12,444 million, representing an increase of RMB541 million or 5% when compared with RMB11,903 million at the end of the previous year.

During 2008, the Company used HKD503 million to buy back 101,693,500 ordinary shares. As of 31 December 2008, the Company's market capitalisation was RMB10,006 million (calculated by issued share capital after deduction of share buyback: 2,173,505,500 shares, closing price: HKD5.22 per share and exchange rate of 0.88189 between HKD and RMB).

Material Investments and Restructuring

During 2008, the Group increased its investment in Sinotruk Finance Company Limited 中國重汽財務有限公司 ("Sinotruk Finance") and acquired 60% equity interest in Liuzhou Yunli.

The Company acquired 4.7% equity interest in Sinotruk Finance from independent third parties for the consideration of RMB23.2 million. In addition, the Company has paid RMB500 million to subscribe for new equity interest in Sinotruk Finance. As at 31 December 2008, the Company's holding in the equity interest in Sinotruk Finance has increased to 78.9%.

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

In 2008, the Company's wholly owned subsidiaries, Jinan Power and Sinotruk (Hong Kong) International Investment Limited ("International Investment") signed a letter of intent with Suizhou Huawei Investment Holdings Co., Ltd. ("Huawei Investment") and Park Technology Corp., both being equity holders of Hubei Huawei, to acquire equity interest in Hubei Huawei. Jinan

Power and International Investment signed a letter of intent with Huawei Investment to inject capital into Hubei Huawei which was renamed as Sinotruk Hubei Special Vehicle Co., Ltd. (中國重汽湖北華威專用汽車有限公司). As at the date hereof, the acquisition and capital injection have been completed.

In addition, International Investment invested HKD350 million to establish Jinan Ganghao Development Co., Ltd.（濟南港豪發展有限公司）, a wholly foreign owned enterprise incorporated in the Jinan Hi-tech Development Zone. It also established Hangzhou Ganghao Power System Co., Ltd. (杭州港豪動力系統有限公司) and Hangzhou Ganghang Power System Co., Ltd. (杭州港杭動力系統有限公司) in Hangzhou, which are both wholly foreign owned enterprises. These entities will be engaged in investments, trading and mergers and acquisitions based on the needs of the Group's development strategies.

On the other hand, the Group reorganized some domestic subsidiaries in order to reduce tax reporting entities. It merged Sinotruk Ji'nan Technical Center Co., Ltd. (中國重汽濟南技術中心有限公司) ("Technical Center") into Jinan Power. Upon the merger, the legal person status of the Technical Center was cancelled. In addition, Sinotruk Factory Design Institute Co., Ltd. (中國重汽設計研究院有限公司) ("Design Institute"), a wholly-owned subsidiary of the Company, acquired 40% equity interest in Shandong Dadi Construction Supervision Co., Ltd. (山東大地建築監理有限公司) ("Dadi Construction") from its ultimate parent company, China National Heavy Duty Truck Group Co., Ltd., (中國重型汽車集團有限公司) ("CNHTC") for a consideration of approximately RMB1.1 million. Dadi Construction was deregistered and mergered with Design Institute.

Going Concern

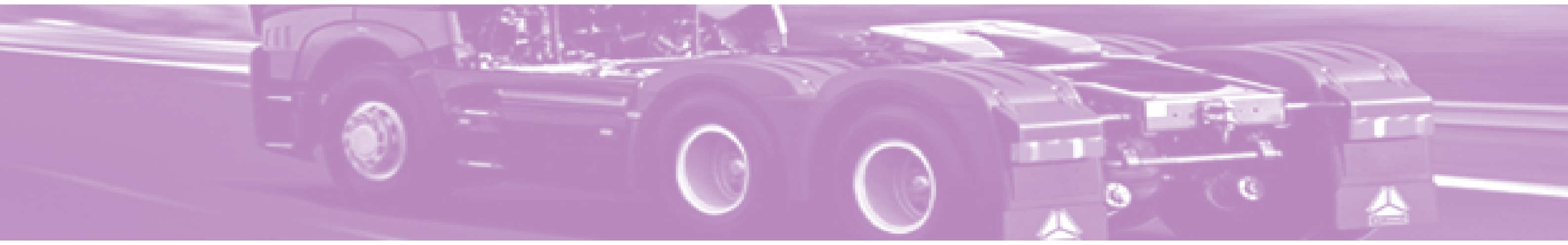
Based on the current financial forecast and the funding that can be utilised, the Group will have sufficient financial resources to continue its operations. As a result, the financial statements were prepared under the going concern assumption.

Contingent Liabilities, Legal Proceedings and Potential Litigation

In 2008, the Group was not involved in any litigation, arbitration or administrative proceedings that could have a materially adverse effect on its financial condition and results of operations. The Group estimates that the total amount of claims of all lawsuits was approximately RMB10.3 million. The total provision for legal claims was RMB2.8 million. The Group has already made full provisions for claims with high risk of loss, and, as such, it did not have other material contingent liability with respect to legal claims to declare.

Human Resources

As of 31 December 2008, the Group had a total of 14,882 employees (2007:13,983 employees). The Group further developed human resources management reform and strengthened the development of talent in its core business. Special attention was paid to training and developing high caliber people. In accordance with the rapid development of its business, the Group continues to expand investment on training resources in order to increase the types of training methods and innovate training models. The Group developed large scale internal training programs, aimed at increasing training coverage and enhancing training quality. In addition, the Group continues to improve management compensation systems and establish results appraisals so as to encourage employees in completing various tasks and meeting targets.



Directors and Senior Management

Executive Directors

Ma Chunji (馬純濟), aged 55, 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 and the title "Shandong Province Top Ten Confucianist Merchants" (山東省十大儒商) in 2008. 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) and the district head of Huaiyin District, Jinan City (濟南市槐蔭區) and 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 45, is our executive Director and president. Mr. Cai is a senior engineer with a bachelor degree in engineering from Jiangsu Polytechnic University (江蘇工學院) and 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 45, 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 and a master degree in engineering from Jiangsu University (江蘇大學). 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.

Wei Zhihai (韋志海), aged 54, 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. Mr. Wei is the chairman of Sinotruk (Hong

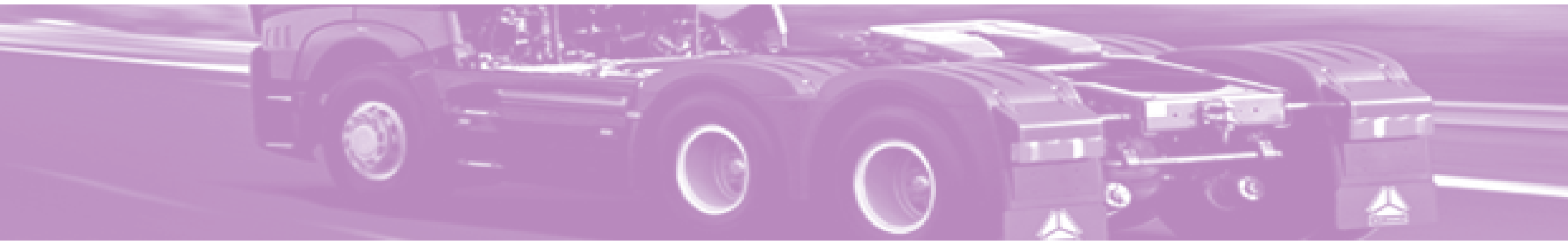
Directors and Senior Management

Kong) International Investment Limited, Jinan Ganghao Development Co., Ltd., Hangzhou Ganghao Power System Co., Ltd. and Hangzhou Ganghang Power System Co., Ltd as well as chief legal advisor of our parent company. 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 55, 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 46, 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 44, is our executive Director and chief engineer. Mr. Wang graduated with a bachelor degree in engineering from Jilin University of Technology (吉林工業大學) in 1984 and with a master's degree in engineering from Shandong Industrial University (山東工業大學) in 1991. 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.



Directors and Senior Management

Independent Non-executive Directors

Shao Qihui (邵奇惠) , aged 74, is our independent non-executive Director. Mr. Shao is a senior professor stage 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 chairman of the China Auto Talents Society (中國汽車人才研究會) and the honorary chairman of the Society of Automotive Engineers of China (中國汽車工程學會) 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 54, 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 (Accountancy) from Xiamen University (廈門大學) in 1985 and received a master degree in Business from University of Saskatchewan in 1991. 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 50, 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 (全國政協敘委), deputy director of academic committee 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) and director of the engine division. Professor Ouyang has extensive experience in the research and development in automobile transmission system and has worked over 40 patents. Professor Ouyang has been granted various awards for his inventions, including "State Science and Technology Awards – Second Prize" (國家技術發明二等獎) and Prize for Scientific and Technological Achievements from The Ho Leung Ho Lee Foundation (何梁何利科學技術創新獎).

Hu Zhenghuan (胡正寰), aged 74, 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 is professor in University of Science and Technology Beijing and postgraduate candidate teacher and the head of the Research Centre of Parts Rolling (國家高效零件軋製研究推廣中心). He was the vice-dean of the mechanical engineering department in University of Science

and Technology Beijing, the head of Mechanical Engineering Research Centre. Professor Hu has engaged in the research of parts rolling technology in China since 1958. His team launches parts rolling technology in all 24 provinces in the PRC and this technology received the remarkable economic benefits and received three national awards and more than ten provincial awards. Professor Hu has been one of the core innovators of parts rolling technology in PRC. He has been granted various awards, including "State Outstanding Contributor"(國家級有突出貢獻科技專家) "State Outstanding Technical Officer" (全國優秀科技工作者), "National Labor Day Medal"(全國五一勞動獎章) and "Technology Achievement Award of Chinese Mechanical Engineering Society" (中國機械工程學會科技成就獎). Professor Hu was elected the member of the Chinese Academy of Engineering (中國工程院) in 1997.

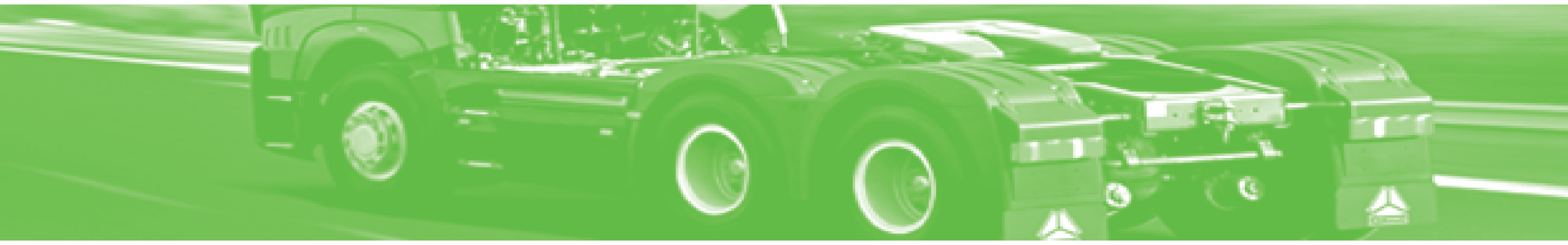
Chen Zheng (陳正), aged 63, is our independent non-executive director. Mr. Chen graduated from the Beijing University of Technology (北京工業大學) in 1970 with a bachelor degree in mechanical engineering. Mr. Chen has over 30 years of experience in the mechanical design and automotive engineering field. He has 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 77, 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) is our executive Director and company secretary. Please refer to the paragraph headed "Executive Directors" above.

Mr. Kwok Ka Yiu (郭家耀), aged 44, is our company secretary 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 to Rules Governing of the Listing of Securities on the Stock Exchange ("Listing Rules").

DIRECTORS' SECURITIES TRANSACTIONS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "Code") as set out in Appendix 10 to the Listing Rules as the code of conduct for securities transactions by 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

Separation of Responsibilities

The Board, led by the Chairman, is responsible for formulating policies and business directions, and monitoring internal controls and performances. The Executive Committee and President of the Board are responsible for executing the decisions made by the Board, handling daily operations and authorise staff to manage business operations. The Executive Committee is formed by all executive Directors. In addition, the Board has set up Strategic and Investment Committee, Remuneration Committee and Audit Committee to deal with different business and matters and authorised administrative management personnel to handle daily matters. Details of different committees will be discussed below.

Composition of Board of Directors

The Board has a total number of thirteen Directors comprising seven 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 six 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. The term of appointment of each independent non-executive Directors is for three years from 26 July 2007. 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.

Board Meetings

The Company generally convenes four regular full Board meetings per year and more meetings may be convened when necessary. During the year 2008, in additional to writing resolutions passed by the Directors, four regular full Board meetings were convened, and had respectively:

(1) approved announcements and reports of financial year 2007 and first half year of 2008;

(2) amended continuing connected transactions caps and approved new connected transactions;

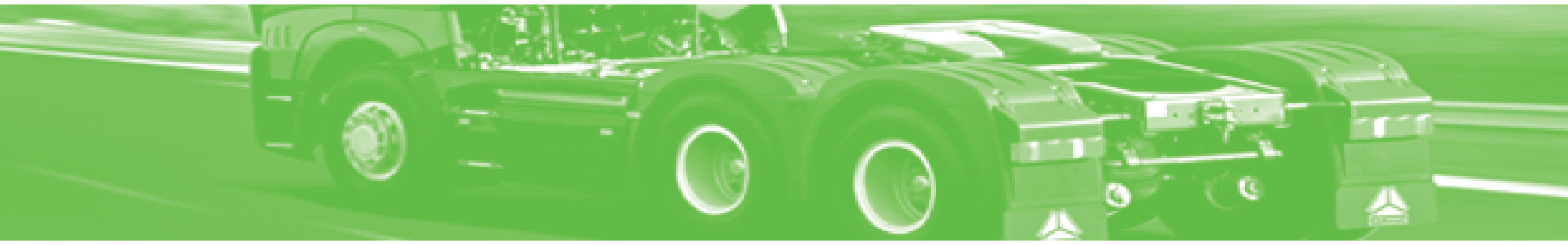
(3) approved certain internal standard such as guidelines on foreign investments and provision of guarantee;

(4) reviewed and approved the internal controls report;

(5) reviewed and approved share repurchases and cancellation of shares repurchased;

(6) reviewed long-term strategic investors progress report, completion of acquisition of business, industry review and preparation of sales conference and reports; and

(7) discussed implication on amendments to the Listing Rules.



Corporate Governance Report

In 2008, details of directors' attendance in the following meetings are set out below:

	Regular Full Board Meeting	Remuneration Committee Meeting	Audit Committee Meeting
Executive Directors			
Mr. Ma Chunji	4/4		
Mr Cai Dong	4/4		
Mr Wang Haotao	4/4		
Mr Wei Zhihai	4/4	1/1	
Mr Wang Guangxi	4/4		4/5
Mr Tong Jingen	4/4	1/1	5/5
Mr Wang Shanpo	4/4		
Independent Non-executive Directors			
Mr Shao Qihui	4/4		
Mr Lin Zhijun	4/4	1/1	5/5
Mr Ouyang Minggao	4/4		5/5
Mr Hu Zhenghuan	3/4		
Mr Chen Zheng	4/4	1/1	5/5
Mr Li Xianyun	4/4	1/1	

STRATEGY AND INVESTMENT COMMITTEE

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 currently comprises seven 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.

During 2008, the Committee had discussed certain material investments including capital expenditure and merger and acquisition.

REMUNERATION COMMITTEE

The Remuneration Committee is mainly responsible for the appraisal of the senior management performance and making 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 comprises five 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.

During 2008, the Committee had convened one meeting to review the report of directors' appraisal method and salary level as well as discuss improvement of directors' appraisal method.

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.

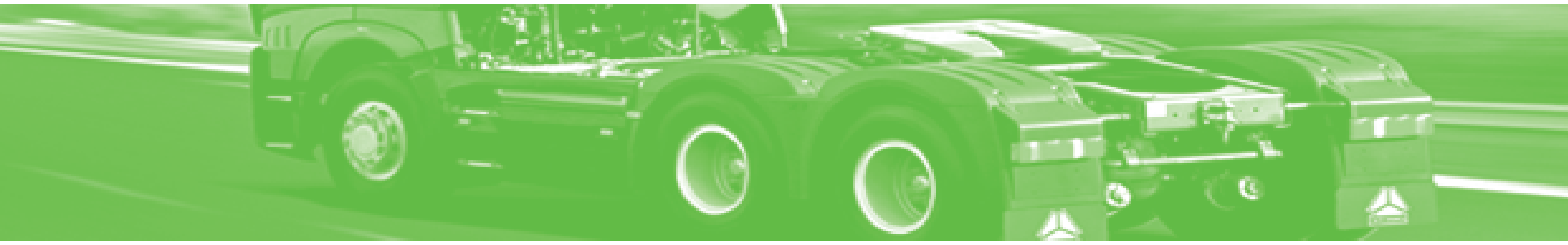
AUDIT COMMITTEE

The 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 currently comprises five 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.

During 2008, the Committee had convened five meetings and had discussed and approved respectively:

1. 2007 annual audit plan and 2008 interim review plan;
2. Auditor's reports to the Audit Committee in respect of 2007 annual audit and 2008 interim review;
3. 2007 annual reports and 2008 interim reports and related announcements;
4. Appointment of auditor; and
5. Internal controls reports from Protiviti Shanghai.



Corporate Governance Report

The Company did not establish any Nomination Committee. According to Article 83 of the Articles of Association of the Company, the Board 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 until the next annual general meeting. The Board may recommend a Director to the general meeting for appointment. 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.

ACCOUNTABILITY AND AUDITING

The Directors are responsible for preparing the financial statements for the financial year ended 31 December 2008 to reflect a true and fair view of the Group's financial conditions and the results and cash flows. In preparing the financial statements for the year ended 31 December 2008. Hong Kong Financial Reporting Standards are adopted, with consistent use of appropriate accounting policies, for making reasonable and prudent judgments and estimates.

INTERNAL CONTROL

The Board 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 responsibilities 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.

The Group continued to engage Protiviti Shanghai Corporation Limited ("Protiviti") as its coporate governance advisor, and to appoint China International Capital Corporation (Hong Kong) Limited ("CICCHKS"), a wholly owned subsidiary of China International Capital Corporation (Hong Kong) Limited ("CICC"), and J.P. Morgan Securities (Asia Pacific) Limited ("JP Morgan") to be the Company's joint compliance advisers. Regular meetings are held currently for periodic review in order to meet the latest practice requirements on corporate governance. CICC was previously one of the joint compliance advisors of the Company and, under the novation agreement regarding the compliance officer of the Company dated 31 October 2008, assign all of its relevant rights obligations, benefits and interest to CICCHKS.

During 2008, Protiviti carried out internal control testing and consider that there are great improvement in design of the existing internal control system and the Group is building up various sub-systems to achieve a more complete internal control system to ensure the continuing improvement in corporate governance.

Non-competing undertaking

In order to protect the Group's current interests, CNHTC and Sinotruk (BVI) Limited, being the controlling shareholders of the Company, entered into a non-competition undertaking (the "Non-competition Undertaking") with the Company on 3 November 2007.

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

REMUNERATION OF AUDITORS

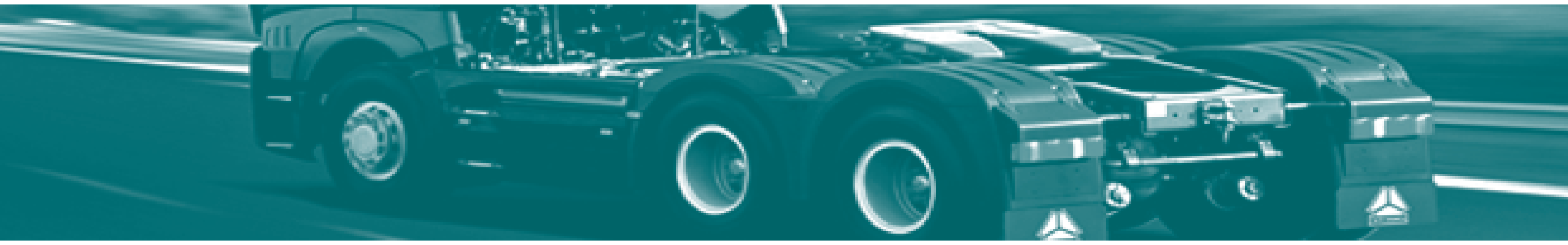
For the year ended 31 December 2008, the amounts of remuneration paid or payable to the auditors of the Group for their auditing and reviewing services rendered are approximately:

PricewaterhouseCoopers and PricewaterhouseCoopers Zhong Tian CPAs Limited Company	Annual auditing and interim reviewing services for 2008	RMB 12,800,000
Zhonghe Zhengxin CPA	Annual auditing services for 2008	RMB 650,000
Wan Long Shandong CPA	Annual auditing services for 2008	RMB 40,000

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. The Company has organized a number of production base site visits including the visits made by investors during 2008. 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 20 business days prior to the date on which the annual general meeting will be held. The notice contains details on the procedures for 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 2008.

PRINCIPAL BUSINESS

The Company is principally engaged in investment holding. The principal subsidiaries of the Company primarily specialise 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 34 to the consolidated financial statements. 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 2008 are set out in the consolidated income statement on page 49.

The Directors recommend the payment of a final dividend of HKD0.04 per Share for the year ended 31 December 2008 totalling approximately HKD86,477,000 (RMB: 76,244,000), which is subject to shareholders' approval at the forth coming annual general meeting.

CLOSURE OF REGISTER OF MEMBERS

The proposed final dividend, if approved, will be distributed on or about 12 June 2009 to shareholders of the Company whose names appear on the register of members of the Company on 8 June 2009. The register of members of the Company will be closed from 3 June 2009 to 8 June 2009 (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 2 June 2009.

RESERVES

Movements in the reserve of the Group during the year under review are set out in the consolidated statement of changes in equity on page 53 and note 25 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 17 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 25 to the consolidated financial statements.

DISTRIBUTABLE RESERVES

The Company's distributable reserves as at 31 December 2008 were approximately RMB132,486,000.

CHARITABLE DONATION

The Group's total charitable donation for the year under review amounted to RMB949,995 (2007: RMB949,290).

BANK BORROWINGS

Details of the Group's bank borrowings as at 31 December 2008 are set out in note 27 to the consolidated financial statements.

Report of the Directors

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 136.

PURCHASE, SALE OR REDEMPTION OF SHARES

During 2008, the Company repurchased its 101,693,500 ordinary shares at total consideration of HKD501,547,255 from open market. Details of the shares repurchased are disclosed as follows:

Month of share repurchased	Number of ordinar shares repurchased	Price per each ordinary share		Total consideration
		Maximun	Minimum	
		HKD	HKD	HKD
November	31,324,500	4.54	3.79	135,509,325
December	70,369,000	6.16	4.39	366,037,930
Total	101,693,500			501,547,255
Other expenses				1,103,506
Total payment				502,650,761

The above shares repurchased were cancelled on delivery of the share certificates on 26 February 2009. The total consideration paid was offset with the retained earnings. The purchase of the Company's shares during 2008 was effected by the Directors, pursuant to the mandate obtained from shareholders at the last annual general meeting, with a view to benefiting shareholders as a whole by enhancing the net asset value per share and earnings per share of the Company.

Save as disclosed, 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

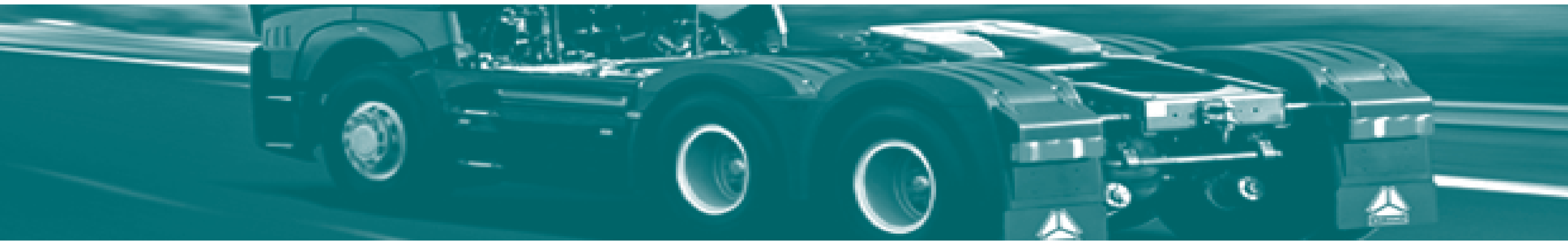
The Company did not have any share option scheme in the year ended 31 December 2008.

DIRECTORS

Directors during the year were as follows:

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

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, Ma Chunji, Wang Haotao, Lin Zhijun, Ouyang Minggao and Hu Zhenghuan 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 35 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 28 to page 31.

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

As of 31 December 2008, 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

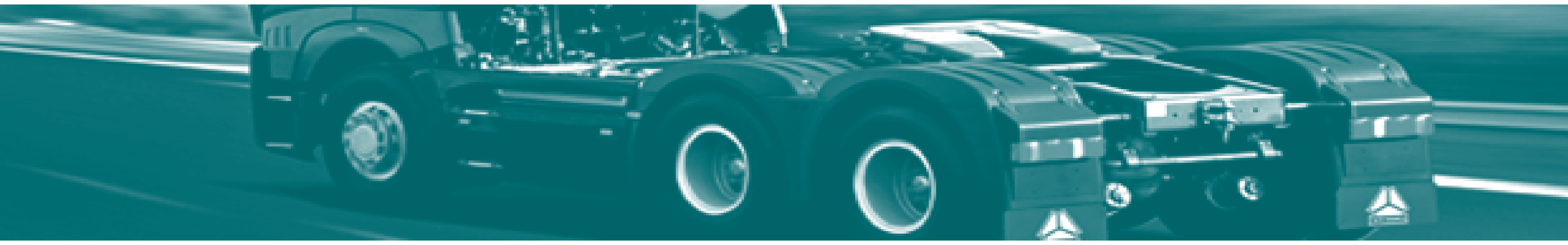
As at 31 December 2008, so far as it is known to the Directors, the person (other than a Director or chief executive of the Company) who had, or were deemed or taken to have interests or short positions in the Shares or underlying Shares which would fall to be disclosed to the Company under the provisions 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 (%) *(Note 2)*
Sinotruk (BVI) Limited *(Note 1)*	beneficial owner	1,499,292,100	65.90%

Note 1: 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.

Note 2: The Company repurchased 101,693,500 ordinary shares which were not yet cancelled in 2008. If the number of issued share had been adjusted with such shares repurchased, the percentage of shareholding in the Company by Sinotruk (BVI) Limited would have been 68.98%.

Save as disclosed above, as at 31 December 2008, 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.



Report of the Directors

MANAGEMENT CONTRACTS

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

MAJOR CUSTOMERS AND SUPPLIERS

The followings are the percentages of purchases and sales attributable to the major customers and suppliers of the Group as at 31 December 2008:

Purchases

– the largest supplier	2.5%
– the five largest suppliers	9%

Sales

– the largest customer	4.9%
– the five largest customers	12.1%

The ultimate parent company of the Company, CNHTC, owns 51% and 100% equity interest in CNHTC Jining Commercial Truck Co., Ltd. and CNHTC Jinan Investment Co., Ltd., respectively, each being one of the five largest customers. Save as disclosed, 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 non-exempt connected transactions of the Group under the Listing Rules during the year under review are set out as below which includes significant related party transactions that are set out in note 35(a) (i) to the consolidated financial statements.

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

1) Continuing Connected Transaction - General Services Purchase Agreement

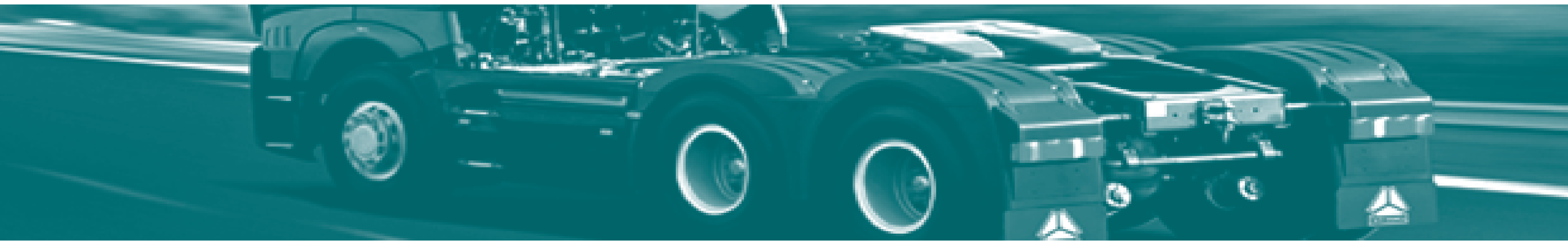
Date of agreement:	3 November 2007
Parties:	• CNHTC • the Company
Term:	3 years from 1 November 2007
Objective:	CNHTC (including its associates) will continue to provide services such as property management, transportation, staff training, medical services and products testing and improvement services 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 2008:	RMB114,000,000
Actual consideration for the year ended 31December 2008:	RMB69,588,000

2) Continuing Connected Transaction - 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:	the market price or cost with a reasonable margin
Annual cap for the year ended 31 December 2008:	(a) RMB11,077,000 (b) RMB3,756,000
Actual consideration for the year ended 31 December 2008	(a) RMB11,077,000 (b) RMB3,756,000

3) Connected Transaction – Construction Contract

Date of agreement:	18 August 2008
Parties:	• CNHTC Jinan Construction Project Management Co., Ltd., a wholly-owned subsidiary of CNHTC • Jinan Ganghao Development Co., Ltd.
Term:	from 18 August 2008 to the end of December 2008 and now extend the completion to August 2009
Objective:	To act as the contractor for the construction of factory premises of Jinan Ganghao in Jinan City, Shangdong Province, the PRC
Consideration:	RMB76,560,000 (subject to adjustment)



4) Continuing Connected Transaction – Construction Service Agreement

Date of agreement:	26 September 2008
Parties:	• CNHTC Jinan Construction Project Management Co., Ltd. • the Company
Term:	From 26 September 2008 to 31 December 2009
Objective:	To provide construction and project management services to the members of the Group
Consideration:	(a) the relevant PRC state-fixed prices; or (b) if transactions under the Construction Service Agreement not subject to PRC state-fixed prices, the market prices; or (c) if the parties cannot ascertain the prevailing market prices, costs plus a reasonable margin
Annual cap for the year ended 31 December 2008:	RMB253,440,000
Actual consideration for the year ended 31December 2008:	RMB133,898,000

None of the above continuing connected transactions exceeded the relevant annual cap amounts during the year under review.

B) Continuing Connected Transactions subject to Independent Shareholders' Approval Requirements

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 (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 2008:	Products Sales Agreement: RMB659,000,000 Products Purchases Agreement: RMB1,335,000,000
Actual consideration for the year ended 31December 2008:	Products Sales Agreement: RMB541,186,000 Products Purchases Agreement: RMB717,358,000

2) Mutual Supply Agreement

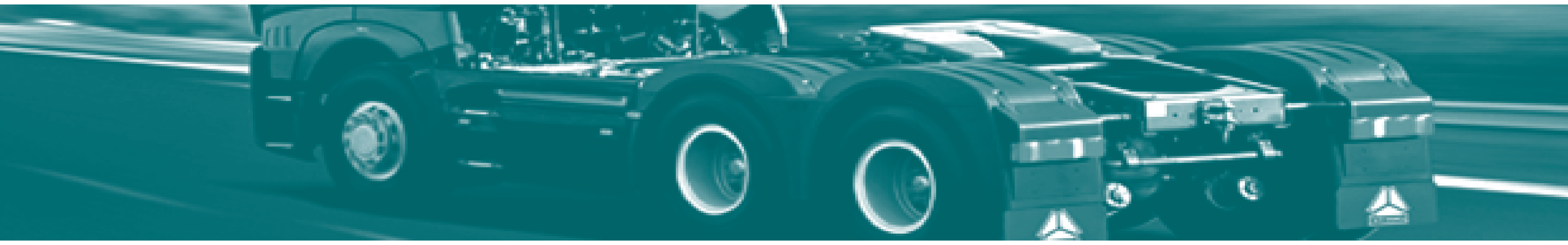
Date of agreement:	3 November 2007
Parties:	• CNHTC • the Company
Term:	3 years from 1 November 2007
Objective:	Parts Supply Agreement: the Group will supply raw materials, parts and components and semi-finished products to CNHTC (including its associates) Parts Purchase Agreement: CNHTC (including its 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 2008:	Parts Purchase Agreement: RMB175,000,000 Parts Supply Agreement: RMB1,495,000,000
Actual consideration for the year ended 31 December 2008:	Parts Purchase Agreement: RMB152,262,000 Parts Supply Agreement: RMB1,074,455,000

All the above connected and continuing connected transactions did not exceed the relevant annual cap amounts.

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



Report of the Directors

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.

PricewaterhouseCoopers, the auditor of the Company, has provided a letter to the Board in respect of the continuing connected transactions disclosed above for the year ended December 2008 and confirmed:

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

ii. in relation to those transations involing provisions of goods and services of the Group, the pricing of the transactions, on a sample basis, were in accordance with the pricing policy of the Group;

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

iv. the value of all the above continued and continuing connected transactions did not exceed the relevant cap.

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 to the Listing Rules.

SUFFICIENCY OF PUBLIC FLOAT

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

EVENTS AFTER THE BALANCE SHEET DATE

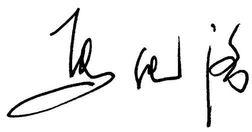
On 2 January 2009, the Company repurchased of 11,575,000 ordinary shares of the Company at an aggregate consideration of approximately HKD67,723,000 (approximately RMB59,725,000) on the Stock Exchange.

On 26 February 2009, the Company cancelled the 113,268,500 ordinary shares repurchased.

In March 2009, the Group acquired 60% equity interest in Hubei Huawei. Hubei Huawei is mainly engaged in refitting and sales of heavy duty trucks.

AUDITOR

PricewaterhouseCoopers will retire as auditor of the Company at the forthcoming annual general meeting of the Company and a resolution for its re-appointment will be proposed at the said meeting.



By Order of the Board
Chairman

Beijing, 20 April 2009

Independent Auditor's Report

羅兵咸永道會計師事務所

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

INDEPENDENT AUDITOR'S REPORT
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 49 to 135, which comprise the consolidated and company balance sheets as at 31 December 2008, 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.

Independent Auditor's Report

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 2008 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, 20 April 2009

Consolidated Income Statement - By function of expense

For the year ended 31 December 2008

(All amounts in RMB thousands unless otherwise stated)

		Year ended 31 December	
	Note	2008	2007
Turnover	5	26,000,199	21,297,372
Cost of sales	8	(22,359,252)	(17,394,852)
Gross profit		3,640,947	3,902,520
Distribution costs	8	(1,370,835)	(1,141,364)
Administrative expenses	8	(985,770)	(806,190)
Other losses – net	7	(35,667)	(18,058)
Operating profit		1,248,675	1,936,908
Finance income		289,415	173,180
Finance costs		(238,985)	(221,324)
Finance income/(costs) - net	10	50,430	(48,144)
Profit before income tax		1,299,105	1,888,764
Income tax expense	11	(185,909)	(500,806)
Profit for the year		1,113,196	1,387,958
Attributable to:			
Equity holders of the Company		880,774	1,109,185
Minority interests		232,422	278,773
		1,113,196	1,387,958
Earnings per share for profit attributable to the equity holders of the Company during the year (expressed in RMB per share)			
– basic & diluted	14	0.39	0.71
Dividends, proposed	15	76,244	145,112

The notes on page 55 to 135 are an integral part of these consolidated financial statements.

Consolidated Balance Sheet

As at 31 December 2008
(All amounts in RMB thousands unless otherwise stated)

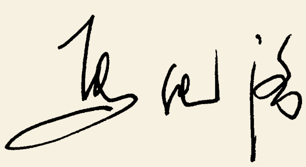
	Note	As at 31 December 2008	2007
ASSETS			
Non-current assets			
Land use rights	16	441,699	319,204
Property, plant and equipment	17	6,498,830	4,187,580
Investment properties	18	4,171	—
Intangible assets	19	33,808	5,901
Deferred income tax assets	28	316,178	203,426
		7,294,686	4,716,111
Current assets			
Inventories	22	5,327,669	4,247,745
Trade and other receivables	21	5,138,973	2,856,879
Financial assets at fair value through profit or loss	20	8,622	—
Amounts due from related parties	35	71,317	169,645
Restricted cash	23	3,739,575	2,098,057
Cash and cash equivalents	24	6,721,470	10,077,093
		21,007,626	19,449,419
Total assets		28,302,312	24,165,530
EQUITY			
Capital and reserves attributable to equity holders of the Company			
Share capital	25	219,648	219,648
Other reserves		9,392,137	9,263,817
Retained earnings		1,693,707	1,503,614
		11,305,492	10,987,079
Minority interests		1,138,240	916,228
Total equity		12,443,732	11,903,307

Consolidated Balance Sheet

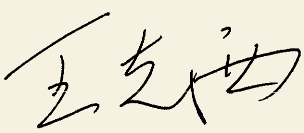
As at 31 December 2008

(All amounts in RMB thousands unless otherwise stated)

	Note	As at 31 December 2008	2007
LIABILITIES			
Non-current liabilities			
Borrowings	27	344,434	924,427
Deferred income tax liabilities	28	1,461	—
Termination benefits, post-employment benefits and medical insurance plan	29	64,570	81,550
		410,465	1,005,977
Current liabilities			
Trade and other payables	26	7,606,909	6,579,546
Current income tax liabilities		15,639	41,632
Borrowings	27	7,680,211	4,457,188
Amounts due to related parties	35	19,307	25,254
Provisions for other liabilities	30	126,049	152,626
		15,448,115	11,256,246
Total liabilities		15,858,580	12,262,223
Total equity and liabilities		28,302,312	24,165,530
Net current assets		5,559,511	8,193,173
Total assets less current liabilities		12,854,197	12,909,284



Director



Director

The notes on page 55 to 135 are an integral part of these consolidated financial statements.

Company Balance Sheet

As at 31 December 2008
(All amounts in RMB thousands unless otherwise stated)

	Note	Year ended 31 December 2008	2007
ASSETS			
Non-current assets			
Land use rights	16	16,440	16,459
Property, plant and equipment	17	771	815
Intangible assets		5	6
Investments in subsidiaries	34	11,406,130	4,383,152
		11,423,346	4,400,432
Current assets			
Amounts due from related parties		11,267	4,682
Dividends receivable		596,507	210,000
Other receivables		446	17,275
Cash and cash equivalents	24	65,585	7,551,672
		673,805	7,783,629
Total assets		12,097,151	12,184,061
EQUITY			
Capital and reserves attributable to the Company's equity holders			
Share capital	25 (a)	219,648	219,648
Share premium	25 (a)	11,727,145	11,727,145
Retained earnings		132,486	165,291
Total equity		12,079,279	12,112,084
LIABILITIES			
Current liabilities			
Amounts due to subsidiaries		5,788	19,391
Trade and other payables		12,084	52,586
		17,872	71,977
Total liabilities		17,872	71,977
Total equity and liabilities		12,097,151	12,184,061
Net current assets		655,933	7,711,652
Total assets less current liabilities		12,079,279	12,112,084

Director　　　　　　　　　　Director

The notes on page 55 to 135 are an integral part of these consolidated financial statements.

Consolidated Statement of Changes in Equity

For the year ended 31 December 2008

(All amounts in RMB thousands unless otherwise stated)

	Attributable to equity holder of the Group								
	Share capital	Capital reserves	Statutory reserves	Merger reserve	Translation reserve	Retained earnings	Total	Minority interests	Total equity
Balance at 1 January 2007	146,154	(768,349)	67,820	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
Exchange differences arising from translation of the financial statements of a subsidiary	–	–	–	–	(3,532)	–	(3,532)	(1,379)	(4,911)
Appropriation to reserves	–	–	151,494	–	–	(151,494)	–	–	–
Change of paid-in 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 to minority shareholders	–	–	–	–	–	–	–	(5,267)	(5,267)
Balance at 31 December 2007	219,648	8,003,901	219,314	1,045,473	(4,871)	1,503,614	10,987,079	916,228	11,903,307
Profit for the year	–	–	–	–	–	880,774	880,774	232,422	1,113,196
Exchange differences arising from translation of the financial statements of a subsidiary	–	–	–	–	8,433	–	8,433	–	8,433
Appropriation to reserves	–	–	102,468	–	–	(102,468)	–	–	–
Repurchase of own shares (Note 25(b))	–	–	–	–	–	(443,101)	(443,101)	–	(443,101)
Revaluation of own-occupied properties upon transfer to investment properties, net of tax	–	1,053	–	–	–	–	1,053	–	1,053
Purchase of minority interests	–	16,366	–	–	–	–	16,366	(40,644)	(24,278)
Dividends to minority shareholders	–	–	–	–	–	–	–	(6,381)	(6,381)
Dividends of the Company relating to 2007	–	–	–	–	–	(145,112)	(145,112)	–	(145,112)
Acquisition of a subsidiary (Note 6)	–	–	–	–	–	–	–	36,615	36,615
Balance at 31 December 2008	219,648	8,021,320	321,782	1,045,473	3,562	1,693,707	11,305,492	1,138,240	12,443,732

The notes on page 55 to 135 are an integral part of these consolidated financial statements.

Consolidated Cash Flow Statement

For the year ended 31 December 2008

(All amounts in RMB thousands unless otherwise stated)

	Note	Year ended 31 December 2008	2007
Cash flows from operating activities			
Cash (used in)/generated from operations	31	(203,655)	2,049,488
Interest paid		(304,807)	(215,643)
Income tax paid		(435,049)	(598,925)
Net cash (used in)/generated from operating activities		(943,511)	1,234,920
Cash flows from investing activities			
Acquisition of business unit, net of cash acquired	6	17,590	(152,628)
Prepaid operating lease payments for land use rights	16	(108,191)	(85,138)
Purchase of property, plant and equipment		(2,782,011)	(1,248,911)
Proceeds from sale of property, plant and equipment	31(b)	8,625	8,729
Purchase of intangible assets	19	(7,230)	(731)
Purchase of financial assets at fair value through profit or loss		(7,729)	—
Purchase of minority interests		(24,278)	—
Interest received		188,310	157,427
Net cash used in investing activities		(2,714,914)	(1,321,252)
Cash flows from financing activities			
(Increase)/decrease in restricted cash		(1,675,444)	911,446
Proceeds from borrowings		11,852,689	6,069,639
Repayments of borrowings		(9,266,976)	(8,007,507)
Proceeds from issue of ordinary shares		—	9,466,075
Share issue expenses		—	(491,785)
Repurchase of own shares	25(b)	(443,101)	—
Dividends paid to the equity shareholders of the Company	15	(145,112)	—
Dividends paid to minority interests shareholder		(6,971)	(3,909)
Net cash generated from financing activities		315,085	7,943,959
Net (decrease)/increase in cash and cash equivalents		(3,343,340)	7,857,627
Cash and cash equivalents at beginning of the year	24	10,077,093	2,321,902
Exchange losses on cash	31	(12,283)	(102,436)
Cash and cash equivalents at end of the year	24	6,721,470	10,077,093

The notes on page 55 to 135 are an integral part of these consolidated financial statements.

1. 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") of China National Heavy Duty Truck Group Company Limited ("CNHTC") as detailed in section headed "History, Reorganisation and Corporate Structure" of the global offering prospectus dated 15 November 2007.

The Company together with its subsidiaries are hereinafter collectively referred to as the Group. The Group is principally engaged in the manufacturing and sales of heavy duty trucks, engines, and the provision of finance services (the "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.

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

2. 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 consolidated financial statements of the Group have been prepared in accordance with Hong Kong Financial Reporting Standards (the "HKFRS") issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA"). They have been prepared under the historical cost convention, as modified by the revaluation of investment property, and financial assets at fair value through profit or loss.

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) Amendment and interpretation effective in 2008

- The HKAS 39, 'Financial instruments: Recognition and measurement', amendment on reclassification of financial assets permits reclassification of certain financial assets out of the held-for-trading and available-for-sale categories if specified conditions are met. The related amendment to HKFRS 7, 'Financial instruments: Disclosures', introduces disclosure requirements with respect to financial assets reclassified out of the held-for-trading and available-for-sale categories. The amendment is effective prospectively from 1 July 2008. This amendment does not have any impact on the Group's financial statements, as the Group has not reclassified any financial assets.

- HK(IFRIC) - Int 14, 'HKAS 19 - The limit on a defined benefit asset, minimum funding requirements and their interaction', 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. This interpretation does not have any impact on the Group's financial statements.

2. Principal accounting policies (Continued)

(a) Basis of preparation (Continued)

(2) Interpretations effective in 2008 but not relevant

The following interpretations to published standards are mandatory for accounting periods beginning on or after 1 January 2008 but are not relevant to the Group's operations:

- HK(IFRIC) - Int 11, 'HKFRS 2 - Group and treasury share transactions'
- HK(IFRIC) - Int 12 , 'Service Concession arrangements'

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

The following standards and amendments to existing standards have been published and are mandatory for the Group's accounting periods beginning on or after 1 January 2009 or later periods, but the Group has not early adopted them:

- HKFRS 8, 'Operating segments' (effective from 1 January 2009). HKFRS 8 replaces HKAS 14, 'Segment reporting', and aligns segment reporting with the requirements of the US standard SFAS 131, 'Disclosures about segments of an enterprise and related information'. The new standard requires a 'management approach', under which segment information is presented on the same basis as that used for internal reporting purposes. The Group will apply HKFRS 8 from 1 January 2009. The segments will be reported in a manner that is more consistent with the internal reporting provided to the chief operating decision-maker.
- HKAS 1 (Revised), 'Presentation of financial statements' (effective from 1 January 2009). The revised standard will prohibit the presentation of items of income and expenses (that is, 'non-owner changes in equity') in the statement of changes in equity, requiring 'non-owner changes in equity' to be presented separately from owner changes in equity. All non-owner changes in equity will be required to be shown in a performance statement, but entities can choose whether to present one performance statement (the statement of comprehensive income) or two statements (the consolidated income statement and statement of comprehensive income). Where entities restate or reclassify comparative information, they will be required to present a restated balance sheet as at the beginning comparative period in addition to the current requirement to present balance sheets at the end of the current period and comparative period.
- HKAS 23 (Revised), 'Borrowing costs' (effective from 1 January 2009). The amendment requires an entity to capitalise borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset (one that takes a substantial period of time to get ready for use or sale) as part of the cost of that asset. The option of immediately expensing those borrowing costs will be removed. Management is currently assessing the impact of HKAS 23 (Revised), but does not anticipate any material impact on the Group's accounts as the Group has already followed the principles of capitalising borrowing costs of qualify assets in accordance of HKAS 23.

2. Principal accounting policies (Continued)

(a) Basis of preparation (Continued)

(3) Standards and amendments 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 1 July 2009).The revised standard requires the effects of all transactions with non-controlling interests to be recorded in equity if there is no change in control and these transactions will no longer result in goodwill or gains and losses. The standard also specifies the accounting when control is lost. Any remaining interest in the entity is re-measured to fair value and a gain or loss is recognised in profit or loss. The Group will apply HKAS 27 (Revised) prospectively to all consolidated and separate financial statements from 1 January 2010.

- HKFRS 3 (Revised), 'Business combinations' (effective from 1 July 2009). The revised standard continues to apply the acquisition method to business combinations, with some significant changes. For example, all payments to purchase a business are to be recorded at fair value at the acquisition date, with contingent payments classified as debt subsequently re-measured through the consolidated income statement. There is a choice on an acquisition by acquisition basis to measure the non-controlling interest in the acquiree either at fair value or at the non-controlling interest's proportionate share of the acquiree's net assets. All acquisition-related costs should be expensed. The Group will apply HKFRS 3 (Revised) prospectively to all business combinations from 1 January 2010.

- HKFRS 7 (Amendment), "Financial instruments: Disclosures" (effective from 1 January 2009). The amendment increases the disclosure requirements about fair value measurement and reinforces existing principles for disclosure about liquidity risk. The amendment introduces a three-level hierarchy for fair value measurement disclosure and requires some specific quantitative disclosures for financial instruments in the lowest level in the hierarchy. In addition, the amendment clarifies and enhances existing requirements for the disclosure of liquidity risk primarily requiring a separate liquidity risk analysis for derivative and non-derivative financial liabilities. The Group will apply this amendment from 1 Jaunary 2009, but it is not expected to have a material impact on the Group's consolidated financial statements.

- HKICPA's improvements to HKFRS published in October 2008

  ➢ HKAS 1 (Amendment), 'Presentation of financial statements' (effective from 1 January 2009). The amendment clarifies that some rather than all financial assets and liabilities classified as held-for-trading in accordance with HKAS 39, 'Financial instruments: Recognition and measurement' are examples of current assets and liabilities respectively.

  ➢ HKAS 19 (Amendment), 'Employee benefits' (effective from 1 January 2009).

    — The amendment clarifies that a plan amendment that results in a change in the extent to which benefit promises are affected by future salary increases is a curtailment, while an amendment that changes benefits attributable to past service gives rise to a negative past service cost if it results in a reduction in the present value of the defined benefit obligation.

    — The definition of return on plan assets has been amended to state that plan administration costs are deducted in the calculation of return on plan assets only to the extent that such costs have been excluded from measurement of the defined benefit obligation.

2. Principal accounting policies (Continued)

(a) Basis of preparation (Continued)

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

- HKICPA's improvements to HKFRS published in October 2008 (Continued)

  ➢ HKAS 19 (Amendment), 'Employee benefits' (effective from 1 January 2009). (Continued)

  – The distinction between short term and long term employee benefits will be based on whether benefits are due to be settled within or after 12 months of employee service being rendered.

  – HKAS 37, 'Provisions, contingent liabilities and contingent assets' requires contingent liabilities to be disclosed, not recognised. HKAS 19 has been amended to be consistent.

  ➢ HKAS 23 (Amendment), 'Borrowing costs' (effective from 1 January 2009). The definition of borrowing costs has been amended so that interest expense is calculated using the effective interest method defined in HKAS 39 'Financial instruments: Recognition and measurement'. This eliminates the inconsistency of terms between HKAS 39 and HKAS 23.

  ➢ HKAS 36 (Amendment), 'Impairment of assets' (effective from 1 January 2009). Where fair value less costs to sell is calculated on the basis of discounted cash flows, disclosures equivalent to those for value-in-use calculation should be made.

  ➢ HKAS 39 (Amendment), 'Financial instruments: Recognition and measurement' (effective from 1 January 2009).

  — This amendment clarifies that it is possible for there to be movements into and out of the fair value through profit or loss category where a derivative commences or ceases to qualify as a hedging instrument in cash flow or net investment hedge.

  — The definition of financial asset or financial liability at fair value through profit or loss as it relates to items that are held for trading is also amended. This clarifies that a financial asset or liability that is part of a portfolio of financial instruments managed together with evidence of an actual recent pattern of short-term profit-taking is included in such a portfolio on initial recognition.

2. Principal accounting policies (Continued)

(a) Basis of preparation (Continued)

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

- HKICPA's improvements to HKFRS published in October 2008 (Continued)

➢ HKAS 39 (Amendment), 'Financial instruments: Recognition and measurement' (effective from 1 January 2009). (Continued)

— The current guidance on designating and documenting hedges states that a hedging instrument needs to involve a party external to the reporting entity and cites a segment as an example of a reporting entity. This means that in order for hedge accounting to be applied at segment level, the requirements for hedge accounting are currently required to be met by the applicable segment. The amendment removes this requirement so that HKAS 39 is consistent with HKFRS 8, 'Operating segments' which requires disclosure for segments to be based on information reported to the chief operating decision maker. Currently, for segment reporting purposes, each subsidiary designates and documents (including effectiveness testing) contracts with group treasury as fair value or cash flow hedges so that the hedges are reflected in the segment to which the hedged items relate. This is consistent with the information viewed by the chief operating decision maker. After the amendment is effective, the hedge will continue to be reflected in the segment to which the hedged items relate (and information provided to the chief operating decision maker) but the Group will not formally document and test this hedging relationship.

— When remeasuring the carrying amount of a debt instrument on cessation of fair value hedge accounting, the amendment clarifies that a revised effective interest rate (calculated at the date fair value hedge accounting ceases) are used.

➢ HKAS 40 (Amendment), 'Investment property' (and consequential amendments to HKAS 16) (effective from 1 January 2009). Property that is under construction or development for future use as investment property is within the scope of HKAS 40. Where the fair value model is applied, such property is, therefore, measured at fair value. However, where fair value of investment property under construction is not reliably measurable, the property is measured at cost until the earlier of the date construction is completed and the date at which fair value becomes reliably measurable.

➢ There are a number of minor amendments to HKFRS 7, 'Financial instruments: Disclosures', HKAS 8, 'Accounting policies, changes in accounting estimates and errors', HKAS 10, 'Events after the balance sheet date', HKAS 18, 'Revenue' and HKAS 34, 'Interim financial reporting' which are not addressed above. These amendments are unlikely to have an impact on the Group's financial statements and have therefore not been analysed in detail.

2. Principal accounting policies (Continued)

(a) Basis of preparation (Continued)

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

The following interpretations and amendments to existing standards have been published and are mandatory for the Group's accounting periods beginning on or after 1 January 2009 or later periods but are not relevant for the Group's operations:

- HKFRS 1 (Amendment), 'First time adoption of HKFRS' and HKAS 27 'Consolidated and separate financial statements' (effective from 1 January 2009).
- HKFRS 2 (Amendment), 'Share-based payment' (effective from 1 January 2009).
- HKFRS 5 (Amendment), 'Non-current assets held for sale and discontinued operations' (and consequential amendment to HKFRS 1, 'First-time adoption') (effective from 1 July 2009).
- HKAS 32 (Amendment), 'Financial instruments: Presentation', and HKAS 1 (Amendment), 'Presentation of financial statements' - 'Puttable financial instruments and obligations arising on liquidation' (effective from 1 January 2009).
- HKAS 39 (Amendment) 'Financial Instruments: Recognition and Measurement' - 'Eligible hedged items' (effective from 1 July 2009).
- HK(IFRIC) - Int 9, 'Reassessment of Embedded Derivatives', and HKAS 39 'Financial Instruments: Recognition and Measurement' - 'Embedded Derivatives' (effective from 1 July 2009).
- HK(IFRIC) - Int 13, 'Customer loyalty programmes' (effective from 1 July 2008).
- HK(IFRIC) - Int 15, 'Agreements for construction of real estates' (effective from 1 January 2009).
- HK(IFRIC) - Int 16, 'Hedges of a net investment in a foreign operation' (effective from 1 October 2008).
- HK(IFRIC) - Int 17, 'Distributions of non-cash assets to owners' (effective from 1 July 2009).
- HK(IFRIC) - Int 18, 'Transfers of assets from customers' (effective for transfers on or after 1 July 2009).

2. Principal accounting policies (Continued)

(a) Basis of preparation (Continued)

(4) Interpretations and amendments to existing standards that are not yet effective and not relevant for the Group's operations (Continued)

- HKICPA's improvements to HKFRS published in October 2008

  ➢ HKAS 16 (Amendment), 'Property, plant and equipment' (and consequential amendment to HKAS 7, 'Statement of cash flows') (effective from 1 January 2009).

  ➢ HKAS 20 (Amendment), 'Accounting for government grants and disclosure of government assistance' (effective from 1 January 2009).

  ➢ HKAS 27 (Amendment), 'Consolidated and separate financial statements' (effective from 1 January 2009).

  ➢ HKAS 28 (Amendment), 'Investments in associates' (and consequential amendments to HKAS 32, 'Financial Instruments: Presentation' and HKFRS 7, 'Financial instruments: Disclosures') (effective from 1 January 2009).

  ➢ HKAS 29 (Amendment), 'Financial reporting in hyperinflationary economies' (effective from 1 January 2009).

  ➢ HKAS 31 (Amendment), 'Interests in joint ventures' (and consequential amendments to HKAS 32 and HKFRS 7) (effective from 1 January 2009).

  ➢ HKAS 38 (Amendment), 'Intangible assets'(effective from 1 January 2009).

  ➢ HKAS 41 (Amendment), 'Agriculture' (effective from 1 January 2009).

  ➢ The minor amendments to HKAS 20 'Accounting for government grants and disclosure of government assistance', HKAS 29, 'Financial reporting in hyperinflationary economies', HKAS 40, 'Investment property' and HKAS 41, 'Agriculture', which are not addressed above. These amendments will not have an impact on the Group's operations as described above.

2. Principal accounting policies (Continued)

(b) Merger accounting and consolidation

The consolidated financial statements incorporate the financial statements of the Group 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.

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.

(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 by using of 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.

2. Principal accounting policies (Continued)

(b) Merger accounting and consolidation (Continued)

(i) Subsidiaries (Continued)

In the Company's balance sheet the investments in subsidiaries are stated at cost less provision for impairment losses. 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 acquired of the carrying value 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.

(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.

Foreign exchange gains and losses that relate to borrowings are presented in the income statement within 'finance income or cost'. All other foreign exchange gains and losses are presented in the income statement within 'other gains/(losses)' net.

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 hyperinflationary 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 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 consolidated 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.

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

2. Principal accounting policies (Continued)

(g) Investment property

Investment property, principally comprising leasehold land and office buildings, is held for long-term rental yields and is not occupied by the Group. Investment property is carried at fair value, representing open market value determined annually by external valuers. Fair value is based on active market prices, adjusted, if necessary, for any difference in the nature, location or condition of the specific asset. If the information is not available, the Group uses alternative valuation methods such as recent prices on less active markets or discounted cash flow projections. These valuations are reviewed annually by the external valuer, changes in fair values are recorded in the income statement as part of other income.

Land held under operating leases are classified and accounted for as investment property when the rest of the definition of investment property is met. The operating lease is accounted for as if it were a finance lease.

(h) 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 softwares

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.

2. Principal accounting policies (Continued)

(i) 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.

(j) Financial assets

(i) Classification

The Group classifies its financial assets in the following categories: at fair value through profit or loss and loans and receivables. The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of its financial assets at initial recognition.

(1) Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss are financial assets held for trading. A financial asset is classified in this category if acquired principally for the purpose of selling in the short term. Derivatives are also categorised as held for trading unless they are designated as hedges. Assets in this category are classified as current assets.

(2) 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.

2. Principal accounting policies (Continued)

(j) Financial assets (Continued)

(ii) Recognition and measurement

Regular way purchases and sales of financial assets are recognised on the trade-date - the date on which the Group commits to purchase or sell the asset. Investments are initially recognised at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss. Financial assets carried at fair value through profit or loss are initially recognised at fair value and transaction costs are expensed in the consolidated income statement. Financial assets are derecognised when the rights to receive cash flows from the investments 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.

Gains or losses arising from changes in the fair value of the 'financial assets at fair value through profit or loss' category are presented in the consolidated income statement within 'other gains/(losses) - net', in the period in which they arise. Dividend income from financial assets at fair value through profit or loss is recognised in the consolidated income statement as part of other income when the Group's right to receive payments is established.

The fair values of quoted investments are based on current bid prices. If the market for a financial asset is not active (and for unlisted securities), the Group established fair value by using valuation techniques. These include the use of recent arm's length transactions, reference to other instruments that are substantially the same, discounted cash flow analysis, and option pricing models, making maximum use of market inputs and relying as little as possible on entity-specific inputs.

The Group assesses at each balance sheet date whether there is objective evidence that a financial asset or a group of financial assets is impaired. Impairment testing of trade receivables is described in Note 2(l).

(k) 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)

(l) 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 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.

(m) 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.

(n) 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.

Where any group company purchases the Company's equity share capital (treasury shares), the consideration paid, including any directly attributable incremental costs (net of income taxes) is deducted from equity attributable to the Company's equity holders until the shares are cancelled or reissued. Where such shares are subsequently reissued, any consideration received, net of any directly attributable incremental transaction costs and the related income tax effects, is included in equity attributable to the Company's equity holders.

(o) 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.

2. Principal accounting policies (Continued)

(p) 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 consolidated income statement over the period of the borrowings using the effective interest method.

Fees paid on the establishment of loan facilities are recognised as transaction costs of the loan to the extent that it is probable that some or all of the facility will be drawn down. In this case, the fee is deferred until the draw-down occurs. To the extent there is no evidence that it is probable that some or all of the facility will be drawn down, the fee is capitalised as a prepayment for liquidity services and amortised over the period of the facility to which it relates.

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.

(q) 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.

(r) Current and deferred income tax

The tax expense for the period comprises current and deferred tax. Tax is recognised in the consolidated income statement, except to the extent that it relates to items recognised directly in equity. In this case, the tax is also recognised in equity.

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 Group 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. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

Deferred income tax is recognised, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated 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)

(s) 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 Chinese government 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 consolidated income statement over the employees' expected average remaining working lives.

Past-service costs are recognised immediately in consolidated 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 employees of the Group working in Mainland China, the Group operates defined contribution plans which 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)

(s) Employee benefits (Continued)

(i) Pension obligations (Continued)

For employees in Hong Kong, the Group operates defined contribution Mandatory Provident Fund retirement benefits schemes (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 consolidated 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 consolidated 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)

(s) 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.

(t) 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.

(u) 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 consolidated 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 consolidated income statement on a straight-line basis over the expected lives of the related assets.

2. Principal accounting policies (Continued)

(v) 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 in accordance with sales contracts, 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) Rental income

Rental income from investment property is recognised in the consolidated income statement on a straight-line basis over the term of the lease.

(iv) 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)

(w) 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 consolidated 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.

(x) 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.

(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 Note 2(i).

2. Principal accounting policies (Continued)

(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, EURO and HKD, which are exposed to foreign currency translation risk. Details of the Group's maximum exposures to the foreign exchange risks are disclosed in Note 21, 24, 26 and 27 respectively.

During the year ended 31 December 2008 and 2007, the Group did not use any financial instruments to hedge the foreign exchange risk.

Considering the continuing appreciation of RMB against USD and HKD, 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 December 2008, total amount of HKD 8,807,000,000 (2007: HKD 8,095,000,000) has already been remitted to the subsidiaries in PRC and converted into RMB. The management commit to continue its effort in converting the remaining amounts.

As at 31 December 2008, if RMB had strengthened/weakened by 5% against the USD with all other variables held constant, profit before income tax for the year would have been approximately RMB 25,326,000 (2007: RMB 6,970,000) 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 2008, if RMB had strengthened/weakened by 10% against the EURO with all other variables held constant, profit before income tax for the year would have been approximately RMB 27,412,000 (2007: RMB 101,692,000) 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 2008, if RMB had strengthened/weakened by 5%, against the HKD respectively with all other variables held constant, profit before income tax for the year would have been approximately RMB 19,491,000 (2007: RMB 376,993,000) lower/higher, respectively, mainly as a result of foreign exchange losses/gains on translation of HKD-denominated trade receivables, cash and cash equivalents, trade payables and borrowings.

3. Financial risk management

3.1 Financial risk factors

(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. Certain borrowings bear variable rates and expose the Group to cash flow interest-rate risk. Bank deposits and 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 24 and 27.

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

As at 31 December 2008, if the interest rates on bank borrowings had been 150 basis points higher/lower than the actual primary rate 5.31% announced by People's Bank of China ("PBOC") with all other variables held constant, profit before income tax for the years would have been RMB 44,603,000 (2007: RMB 29,055,000) 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 restricted cash (Note 23), cash and cash equivalents (Note 24), trade and other receivables (Note 21) and amounts due from related parties (Note 35(b)) 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. 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.

(All amounts in RMB thousands unless otherwise stated)

3. Financial risk management (Continued)

3.1 Financial risk factors (Continued)

(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.

	Repayment period					
As at 31 December 2008	**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	7,680,211	41,306	294,956	1,306	1,306	5,560
Interests payments on borrowings (a)	204,208	7,148	4,098	243243	843	
Trade and other payables (b)	6,592,508	—	—	—	—	—
	14,476,927	48,454	299,054	1,549	1,549	6,403

	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

(a) The interest on borrowings is calculated based on borrowings held as at 31 December 2007 and 2008 without taking into account of future issues. Floating-rate interest is estimated using current interest rate as at 31 December 2007 and 2008 respectively.

(b) Trade and other payables include trade and bills payables and other payables as stated in Note 26.

(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 equity attributable to equity holders of the Company. 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 2008	As at 31 December 2007
Total borrowings	8,024,645	5,381,615
Equity attributable to equity holders of the Company	11,305,492	10,987,079
Debt-to-equity ratio	0.71	0.49

The significant increase in the debt-to-equity ratio is resulted from the significant changes of borrowings.

3.3 Fair value estimation

The fair value of financial instruments (such as trading securities) is based on their current bid prices in an active market.

The carrying amounts of the Group's financial assets including cash and cash equivalents, restricted cash balances, trade and other receivables and amounts due from related parties, and financial liabilities including trade and other payables, current borrowings and amounts due to related parties, 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 addressed 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 29.

(c) Warranty claims provision

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)

4.1 Critical accounting estimates and assumptions (Continued)

(d) Net realisable value of inventories

Net realisable value of inventories is the estimated selling price in the ordinary course of business, less estimated costs of completion and selling expenses. These estimates are based on the current market condition as at the balance sheet date and the historical experience of manufacturing and selling products of similar nature.

(e) Impairment of trade receivables

A provision for impairment of trade 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. The provisions for impaired trade receivables have been made based on management best estimates and judgements.

(f) Impairment and useful lives of property, plant and equipment

The Group follows the guidance of HKAS 36 to determine when property, plant and equipment is impaired. This determination requires significant judgement. In making this judgement, the Group evaluates, internal and external source information, including but not limited to whether:

(i) during the period, an asset's market value has declined significantly more than would be expected as a result of the passage of time or normal use.

(ii) significant changes with an adverse effect on the entity have taken place during the period, or will take place in the near future, in the technological, market, economic or legal environment in which the entity operates or in the market to which an asset is dedicated.

(iii) evidence is available of obsolescence or physical damage of an asset.

(iv) evidence is available from internal reporting that indicates that the economic performance of an asset is, or will be, worse than expected.

Management estimates useful lives of the property, plant and equipment by reference to the Group's assets management policy, the industry practice, and technical or commercial obsolescence arising from changes or improvements in the market. The depreciation expense will be significantly affected by the useful lives of the property, plant and equipment as estimated by management.

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

Other group operations mainly comprise the sale of design and research service.

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 income tax assets.

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

Capital expenditure comprises mainly additions to land use rights (Note 16), property, plant and equipment (Note 17), and intangible assets (Note 19), 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 2008 are as follows:

	Trucks	Engines	Finance	Others	Elimination	Total
Turnover						
External segment revenue	24,236,461	1,637,935	116,025	9,778	–	26,000,199
Inter-segment revenue	184,349	4,660,255	42,919	97,494	(4,985,017)	–
	24,420,810	6,298,190	158,944	107,272	(4,985,017)	26,000,199
Operating profit/(loss) before unallocated corporate expenses	877,191	325,721	102,744	(44,863)	135,822	1,396,615
Unallocated corporate expenses						(147,940)
Operating profit						1,248,675
Finance income - net (Note 10)						50,430
Profit before income tax						1,299,105
Income tax expense						(185,909)
Profit for the year						1,113,196

(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)	–
	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 10)						(48,144)
Profit before income tax						1,888,764
Income tax expense						(500,806)
Profit for the year						1,387,958

Other segment items included in the consolidated income statement for the year ended 31 December 2008 are as follows:

	Trucks	Engines	Finance	Others	Unallocated	Total
Depreciation (Note 17)	173,106	161,002	661	12,744	46	347,559
Amortisation of intangible assets (Note 19) and land use rights (Note 16)	4,319	4,882	23	512	391	10,127

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

	Trucks	Engines	Finance	Others	Unallocated	Total
Depreciation (Note 17)	98,941	113,659	734	13,489	3,659	230,482
Amortisation of intangible assets (Note 19) and land use rights (Note 16)	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)

The segment assets and liabilities at 31 December 2008 and capital expenditure for the year then ended are as follows:

	Trucks	Engines	Finance	Others	Elimination	Total
Segment assets	18,103,909	11,179,213	2,374,688	38,687	(4,551,503)	27,144,994
Unallocated assets						1,157,318
Total assets						28,302,312
Segment liabilities	8,313,191	3,280,576	1,269,245	22,259	(4,236,431)	8,648,840
Unallocated liabilities						7,209,470
Total liabilities						15,858,580
Capital expenditure	1,441,359	1,394,401	227	11,503	–	2,847,490
Unallocated capital expenditure						3
Total capital expenditure						2,847,493

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

	Assets	Liabilities
Segment assets/liabilities	27,144,994	8,648,840
Unallocated:		
Deferred tax assets/liabilities	316,178	1,461
Current tax assets/liabilities	108,407	15,639
Current borrowings	–	7,129,773
Non-current borrowings	–	50,784
Assets/liabilities of the Company	732,733	12,083
Total	28,302,312	15,858,580

(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 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 assets	203,426	—
Current tax liabilities	—	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)

5.2 Secondary reporting format - geographical segments

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

Turnover is allocated based on the countries in which the customers are located.

	2008	2007
Turnover		
Mainland China	22,166,492	17,115,631
Overseas	3,833,707	4,181,741
	26,000,199	21,297,372

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

	2008	2007
Total assets		
Mainland China	27,101,279	14,951,462
Hong Kong	1,201,033	9,214,068
	28,302,312	24,165,530

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

	2008	2007
Capital expenditure		
Mainland China	2,847,490	1,823,245
Hong Kong	3	44,076
	2,847,493	1,867,321

(All amounts in RMB thousands unless otherwise stated)

6. Business combinations

On 31 May 2008, the Group acquired 60% of equity interest in Liuzhou Yunli Special Vehicle Co., Ltd. ("Liuzhou Yunli"), a company that refits and sells heavy duty trucks, for a cash consideration of approximately RMB 49,249,000.

The acquired business contributed revenues of approximately RMB 209,930,000 and net profit attributable to the equity holders of the Company of approximately RMB 6,114,000 to the Group for the period from 31 May 2008 to 31 December 2008. If the acquisition had occurred on 1 January 2008, the Group's consolidated revenue and consolidated profit attributable to the equity holders of the Company for the year ended 31 December 2008 would have been approximately RMB 26,615,258,000 and RMB 883,185,000 respectively.

These amounts have been calculated using the Group's accounting policies and by adjusting the results of the subsidiary to reflect the additional depreciation and amortisation that would have been charged assuming the fair value adjustments to property, plant and equipment and intangible assets had applied from 1 January 2008, together with the consequential tax effects.

Details of net assets acquired and excess of share of acquired assets over purchase consideration are as follows:

Purchase consideration:	
- cash paid	49,249
Total purchase consideration	49,249
- fair value of net identifiable assets acquired, attributable to equity holders of the Company	54,923
Excess of share of acquired assets over purchase consideration	(5,674)

The excess of the Group's share of the fair value of Liuzhou Yunli's net identifiable assets, over the purchase consideration is recognised as other gains.

(All amounts in RMB thousands unless otherwise stated)

6. Business combinations (Continued)

The assets and liabilities arising from the acquisition are as follows:

	Acquiree's carrying amount	Fair value
Cash and cash equivalents	66,839	66,839
Short-term investment	360	367
Property, plant and equipment (Note 17)	75,021	77,257
Land use rights (Note 16)	18,941	21,563
Intangible assets (Note 19)	120	1,950
Inventories	90,095	104,158
Receivables	52,629	58,822
Payables	(176,244)	(176,244)
Employee benefit liabilities, including pensions	(933)	(933)
Borrowings	(59,000)	(59,000)
Net deferred tax assets/(liabilities) (Note 28)	784	(3,241)
Net identifiable assets	68,612	91,538
Minority interest (40%)		(36,615)
Net assets acquired		54,923
Inflow of cash to acquire business, net of cash acquired:		
- cash and cash equivalents in subsidiary acquired		66,839
- cash consideration		(49,249)
Cash inflow on acquisition		17,590

(All amounts in RMB thousands unless otherwise stated)

6. Business combinations (Continued)

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 the Ji'nan Power or gearbox department as a result of the common control combination to achieve consistency of accounting policies.

(All amounts in RMB thousands unless otherwise stated)

7. Other losses - net

	2008	2007
Excess of share of acquired assets over the purchase consideration	5,674	—
Disposal of scraps	53,256	17,403
Losses on disposals of property, plant and equipment	(3,049)	(2,396)
Gains on waiver of debts	1,628	1,920
Government grants	86,086	7,928
Fair value gains of financial assets at fair value through profit or loss	893	—
Fair value losses of investment properties	(882)	—
Foreign exchange losses, net	(196,410)	(53,254)
Others	17,137	10,341
	(35,667)	(18,058)

8. Expenses by nature

	2008	2007
Auditors' remuneration	13,490	8,587
Amortisation of land use rights (Note 16)	7,259	6,021
Amortisation of intangible assets (Note 19)	2,868	1,937
Depreciation of property, plant and equipment (Note 17)	347,559	230,482
Provision for impairment of trade and other receivables (Note 21)	78,154	3,685
Employee benefit expense (Note 9)	1,160,851	1,080,071
Write-down of inventories to net realisable value (Note 22)	64,560	57,182
Materials cost (Note 22)	19,903,635	15,208,447
Transportation expenses	622,979	473,846
Advertising costs	148,095	146,891
Warranty expenses (Note 30)	385,174	278,248
Travel and office expenses	153,486	130,900
Transaction taxes	40,740	49,472
Utilities	519,382	487,095
Other charges	1,267,625	1,179,542
Total	24,715,857	19,342,406
Representing:		
Cost of sales	22,359,252	17,394,852
Distribution costs	1,370,835	1,141,364
Administrative expenses	985,770	806,190
	24,715,857	19,342,406

(All amounts in RMB thousands unless otherwise stated)

9. Employee benefit expenses

	2008	2007
Salaries, wages and bonuses	879,511	826,139
Contributions to pension plans (a)	90,291	92,305
Termination benefits (Note 29)	2,280	2,370
Post-employment benefits (Note 29)	360	310
Medical insurance plan(Note 29)	190	170
Housing benefits (b)	35,348	29,070
Other welfare expenses	152,871	129,707
	1,160,851	1,080,071

(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 2008 and 2007.

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 2008 and 2007 (see to Note 2(s)(iv) for the details).

10. Finance income and costs

	2008	2007
Interest expense:		
- Bank borrowings	189,321	145,692
- Discount of notes receivable	51,347	73,317
Net foreign exchange (gains)/losses on financing activities	(1,683)	2,315
Finance costs	238,985	221,324
Finance income:		
- Interest income from bank deposits	(289,415)	(173,180)
Finance (income)/costs, net	(50,430)	48,144

(All amounts in RMB thousands unless otherwise stated)

11. Taxation

(a) Income tax expense

The Company and Sinotruk (Hong Kong) International Investment Limited, one of the subsidiaries of the Group, are subject to Hong Kong profits tax at the rate of 16.5% (2007: 17.5%) on their estimated assessable profit for the year.

Taxation on overseas profits has been calculated on the estimated assessable profit for the year at the rates of taxation prevailing in the countries in which the Group operates.

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 statutory corporate income tax rate is 25% with effect from 1 January 2008. The reduction/increase on corporate income tax rate of PRC subsidiaries will also impact the carrying value of deferred tax assets as a result of the new tax rate.

The Group's four subsidiaries, Sinotruk Ji'nan Power Co., Ltd., Sinotruk Ji'nan Axle & Tramsmission Co., Ltd., Ji'nan Fuqiang Power Co., Ltd. and Sinotruk Hangzhou Engine Co., Ltd., have been recognised as the New/High Tech Enterprises in 2008. According to the tax incentives of the new CIT Law for New/High Tech Enterprises, these subsidiaries are subject to a reduced corporate income tax rate of 15% for three years from 2008 to 2010. The tax rate reduction, from 25% to 15% with effect from 1 January 2008, also impacts 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 30,585,000 due to the change of applicable tax rate (Note 28(c)).

Sinotruck Chongqing Fuel System Co., Ltd. and Liuzhou Yunli are subject to a corporate income tax rate of 15% according to the Western Development tax incentives of the new CIT Law.

Remaining subsidiaries are subject to the PRC corporate income tax, which has been calculated based on the corporate income tax rate of 25% according to the new CIT Law of PRC with the effect from 1 January 2008.

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

	2008	2007
Current tax:		
- Hong Kong profits tax	(665)	2,437
- PRC corporate income tax	301,314	505,989
Total current tax	300,649	508,426
Deferred tax (Note 28)	(114,740)	(7,620)
Income tax expense	185,909	500,806

(All amounts in RMB thousands unless otherwise stated)

11. Taxation (Continued)

(a) Income tax expense (Continued)

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

	2008	2007
Profit before tax	1,299,105	1,888,764
Tax calculated at tax rates applicable to profits in the respective regions	273,529	623,292
Tax effects of :		
Income tax rate changed from 1 January 2008	—	65,095
Tax exemption of certain subsidiaries	(45,540)	(253,722)
Income not subject to tax	(4,974)	(368)
Expenses not deductible for tax purposes	61,805	25,244
Tax losses for which no deferred tax asset was recognised	3,828	41,265
Additional allowance for research and development expenditures	(19,621)	—
Deferred tax assets arising from tax revaluation (Note 28(c)(i))	(138,753)	—
Different tax rate of certain subsidiaries	30,585	—
Withholding income tax	25,050	—
Taxation	185,909	500,806

The Group has unrecognised tax losses of approximately RMB 23,197,000 (2007: RMB 125,044,000), which can be carried forward against future taxable income.

(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.

(All amounts in RMB thousands unless otherwise stated)

12. Directors' and senior management's emoluments

(a) Remunerations

(i) The remuneration of every director of the Company (the "Director") for the year ended 31 December 2008 is set out below:

1

Name of Director	Salary and bonuses	Other benefits	Employer's contribution to pension scheme	Total
Mr. Ma Chun Ji	651	4	22	677
Mr. Cai Dong	599	13	14	626
Mr. Wang Hao Tao	521	13	14	548
Mr. Wei Zhi Hai	521	2	12	535
Mr. Wang Guang Xi	521	13	14	548
Mr. Tong Jin Gen	521	13	14	548
Mr. Wang Shan Po	521	13	14	548
Mr. Shao Qi Hui	120	—	—	120
Mr. Lin Zhi Jun	120	—	—	120
Mr. Ou Yang Ming Gao	120	—	—	120
Mr. Hu Zheng Huan	120	—	—	120
Mr. Chen Zheng	120	—	—	120
Mr. Li Xian Yun	120	—	—	120

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

Name of Director	Salary and bonuses	Other benefits	Employer's contribution to pension scheme	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 the year 2008, 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.

12. 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 year 2008 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:

	2008	2007
Basic salaries, housing allowances and other allowances	1,129	814

The emoluments fell within the following bands:

	2008	2007
Emolument bands (in HK dollars)		
HKD Nil - HKD 1,000,000	1	1

13. 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 555,408,000 (2007: RMB 165,291,000).

14. 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.

	2008	2007
Profit attributable to equity holders of the Company (RMB thousands)	880,774	1,109,185
Weighted average number of ordinary shares in issue (thousands)	2,267,893	1,564,637
Basic earnings per share (RMB per share)	0.39	0.71

Diluted earnings per share equals to basic earnings per share for the years ended 2008 and 2007 as the Company has no dilutive potential shares existed during the years.

15. Dividends

At a meeting held on 20 April 2009, the Board of Directors proposed a final dividend in respect of the year ended 31 December 2008 of approximately HKD 86,477,000, (2007: HKD161,539,000) (approximately RMB 76,244,000 2007: RMB145,112,000), representing HKD 0.04 (2007: HKD0.071) per ordinary share. Such dividend is to be approved by the shareholders at the Annual General Meeting on 8 June 2009. These financial statements do not reflect this dividend payable.

16. 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 37 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 47 to 876 years.

The location is as follows:

	Group		Company	
	2008	2007	2008	2007
In Hong Kong				
- Leases of over 50 years	16,440	16,459	16,440	16,459
- Leases of between 10 to 50 years	21,425	23,463	—	—
Outside Hong Kong	403,834	279,282	—	—
	441,699	319,204	16,440	16,459

The movement is as follows:

	Group		Company	
	2008	2007	2008	2007
Opening net book amount	319,204	240,087	16,459	—
Acquisition of subsidiary (Note 6)	21,563	—	—	—
Other additions	108,191	85,138	—	16,467
Amortisation charge (Note 8)	(7,259)	(6,021)	(19)	(8)
Closing net book amount	441,699	319,204	16,440	16,459
Cost	461,856	331,743	16,467	16,467
Accumulated amortisation	(20,157)	(12,539)	(27)	(8)
Net book amount	441,699	319,204	16,440	16,459

(a) As at 31 December 2008, Land use rights with the carrying amount of approximately RMB 21,425,000 (2007: RMB 23,463,000) are pledged as collaterals for certain bank borrowings (Note 27).

As at 31 December 2008, land use rights with the carrying amount of approximately RMB 16,440,000 (2007: RMB 16,459,000) were pledged as collaterals for the unused borrowing facilities.

(b) As at 31 December 2008, the Group is in the process of applying certificate of land use right which belongs to Ji'nan Ganghao Development Co., Ltd. ("Ji'nan Ganghao"), with total area of 216,000M^2 and the carrying amount of approximately RMB 107,700,000 (2007: Nil). As at the date of these financial statements were approved, the process is still undergoing, while Ji'nan Ganghao has signed contract with Ji'nan Land and Resources Bureau. The Directors are of the opinion that the process would be completed before 31 December 2009.

(All amounts in RMB thousands unless otherwise stated)

17. Property, plant and equipment

	Buildings	Machinery	Furniture, fittings and equipment	Vehicles	Construction -in-progress	Total
The Group						
At 1 January 2007						
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 6)	—	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 8)	(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
Year ended 31 December 2008						
Opening net book amount	978,790	1,630,558	84,012	80,586	1,413,634	4,187,580
Acquisition of a subsidiary (Note 6)	35,723	21,254	2,523	1,310	16,447	77,257
Other additions	13,315	92,453	15,888	9,174	2,500,472	2,631,302
Transfers	611,903	626,371	13,584	16,940	(1,268,798)	—
Fair value gains upon transfer to investment properties	1,261	—	—	—	—	1,261
Transfer to investment properties (Note 18)	(5,053)	—	—	—	—	(5,053)
Transfer to intangible assets (Note 19)	—	—	—	—	(21,595)	(21,595)
Disposals	(2,222)	(19,906)	(845)	(1,390)	—	(24,363)
Depreciation charge (Note 8)	(51,872)	(272,086)	(16,052)	(7,549)	—	(347,559)
Closing net book amount	1,581,845	2,078,644	99,110	99,071	2,640,160	6,498,830
At 31 December 2008						
Cost	1,806,032	3,334,844	166,149	167,512	2,640,160	8,114,697
Accumulated depreciation	(224,187)	(1,256,200)	(67,039)	(68,441)	—	(1,615,867)
Net book amount	1,581,845	2,078,644	99,110	99,071	2,640,160	6,498,830

(All amounts in RMB thousands unless otherwise stated)

17. Property, plant and equipment (Continued)

	Buildings	Machinery	Furniture, fittings and equipment	Vehicles	Construction -in-progress	Total
The Company						
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
Year ended 31 December 2008						
Opening net book amount	796	—	19	—	—	815
Additions	—	—	3	—	—	3
Depreciation charge	(41)	—	(6)	—	—	(47)
Closing net book amount	755	—	16	—	—	771
At 31 December 2008						
Cost	813	—	25	—	—	838
Accumulated depreciation	(58)	—	(9)	—	—	(67)
Net book amount	755	—	16	—	—	771

(All amounts in RMB thousands unless otherwise stated)

17. Property, plant and equipment (Continued)

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

	Group		Company	
	2008	2007	**2008**	2007
Cost of sales	**303,283**	188,725	**—**	—
Distribution costs	**64**	478	**—**	—
Administrative expenses	**44,212**	41,279	**47**	19
	347,559	230,482	**47**	19

(b) As at 31 December 2008, property, plant and equipment with carrying amount of approximately RMB 2,472,000 (2007: RMB 2,671,000) were secured for certain bank borrowings (Note 27).

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

	Group		Company	
	2008	2007	**2008**	2007
Borrowing cost capitalised	**63,865**	1,326	**—**	—
Average capitalisation rate	**5.57%**	5.86%	**—**	—

(d) As at 31 December 2008, the Group is in the process of applying the certificates of ownership for the buildings, which belong to Liuzhou Yunli with the carrying amount of approximately RMB 24,896,000 (2007: Nil). As at the date of these financial statements were approved, the process is still undergoing. The Directors are of the opinion that the process would be completed before 31 December 2009.

(All amounts in RMB thousands unless otherwise stated)

18. Investment properties

	2008	2007
At 1 January	–	–
Transfer from property, plant and equipment (Note 17)	5,053	–
Fair value losses (included in other losses – net)	(882)	–
At 31 December	4,171	–

The investment properties are located in Hong Kong and valued at fair value as at 31 December 2008, comprising market value by an independent, professionally qualified valuer.

The following amounts have been recognised in the consolidated income statement:

	2008	2007
Rental income	194	–

The Group's interests in investment properties are analysed as follows:

	2008	2007
In Hong Kong, held on:		
Leases of between 10 to 50 years	4,171	–

The future aggregate minimum rentals receivables under non-cancellable operating leases are as follows:

	2008	2007
Not later than 1 year	181	–

(All amounts in RMB thousands unless otherwise stated)

19. Intangible assets

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

	Proprietary technology	Computer softwares	Total
At 1 January 2007			
Cost	10,982	1,833	12,815
Accumulated amortisation	(5,148)	(560)	(5,708)
Net book amount	5,834	1,273	7,107
Year ended 31 December 2007			
Opening net book amount	5,834	1,273	7,107
Additions	—	731	731
Amortisation charge (Note 8)	(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
Year ended 31 December 2008			
Opening net book amount	4,462	1,439	5,901
Acquisition of subsidiary (Note 6)	—	1,950	1,950
Transfer from construction in progress (Note 17)	18,547	3,048	21,595
Other additions	—	7,230	7,230
Amortisation charge (Note 8)	(1,788)	(1,080)	(2,868)
Closing net book amount	21,221	12,587	33,808
At 31 December 2008			
Cost	29,529	14,792	44,321
Accumulated amortisation	(8,308)	(2,205)	(10,513)
Net book amount	21,221	12,587	33,808

(All amounts in RMB thousands unless otherwise stated)

19. Intangible assets (Continued)

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

	2008	2007
Cost of sales	1,788	1,372
Administrative expenses	1,080	565
	2,868	1,937

(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 204,755,000 (2007: RMB 109,626,000). No capitalised development costs were recorded as intangible assets during the year ended 31 December 2008 and 2007.

20. Financial assets at fair value through profit or loss

	2008	2007
Listed securities		
- Equity securities – Hong Kong	8,622	—
Market value of listed securities	8,622	—

Changes in fair values of financial assets at fair value through profit or loss are recorded in 'other losses - net' in the consolidated income statement (Note 7).

The fair values of all equity securities are based on their current bid prices in an active market.

(All amounts in RMB thousands unless otherwise stated)

21. Trade and other receivables

	2008	2007
Accounts receivable	1,678,702	1,542,480
Less: Provision for impairment of accounts receivable	(102,788)	(24,585)
Accounts receivable - net	1,575,914	1,517,895
Notes receivable	2,194,502	699,922
Trade receivables - net	3,770,416	2,217,817
Other receivables	384,172	146,329
Less: Provision for impairment of other receivables	(4,858)	(4,007)
Other receivables - net	379,314	142,322
Prepayments	481,083	265,511
Interest receivables	138,554	37,449
Prepaid taxes other than income tax	261,199	193,780
Prepaid income taxes	108,407	—
Trade and other receivables	5,138,973	2,856,879

(a) As at 31 December 2008 and 2007, the carrying amounts of the Group's trade and other receivables approximated their fair values.

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

	2008	2007
Opening amount	28,592	29,523
Provision for receivable impairment (Note 8)	78,154	3,685
Receivables written off during the year as uncollectible	(236)	(4,616)
Acquisition of a subsidiary (Note 6)	1,136	—
Closing amount	107,646	28,592

(All amounts in RMB thousands unless otherwise stated)

21. Trade and other receivables (Continued)

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

	2008	2007
Less than 3 months	2,144,365	1,573,357
3 months to 6 months	1,499,580	654,728
6 months to 12 months	208,217	2,843
1 year to 2 years	13,415	9,139
2 years to 3 years	5,463	612
Over 3 years	2,164	1,723
	3,873,204	2,242,402

The credit policy of the Group 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. Credit terms in the range within 6 months are granted to those customers with good payment history.

As at 31 December 2008, accounts receivable of approximately RMB 402,450,000 (2007: RMB 1,090,731,000) were secured by certain letters of credit issued by overseas third parties. No provision is provided against these receivables as at 31 December 2008 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.

(e) Notes receivable are analysed as follows:

	2008	2007
Bank acceptance notes issued by related parties	2,800	1,250
Bank acceptance notes issued by third parties	2,114,762	693,031
Commercial acceptance notes issued by related parties	26,140	1,570
Commercial acceptance notes issued by third parties	50,800	4,071
	2,194,502	699,922

(All amounts in RMB thousands unless otherwise stated)

21. Trade and other receivables (Continued)

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

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

	2008	2007
Bank acceptance notes		
CNHTC Special Vehicle Company	1,800	—
CNHTC Ji'nan Investment Co., Ltd.	1,000	—
CNHTC Ji'ning Commercial Truck Co., Ltd.	—	1,000
CNHTC Ji'nan Bus Co., Ltd.	—	250
	2,800	1,250
Commercial acceptance notes		
CNHTC Ji'nan Investment Co., Ltd.	24,840	1,070
CNHTC Taian Wuyue Special Truck Co., Ltd.	1,300	—
CNHTC Ji'nan Bus Co., Ltd.	—	500
	26,140	1,570

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

	2008	2007
Commercial acceptance notes endorsed - issued by related parties	7,520	1,050

(All amounts in RMB thousands unless otherwise stated)

21. Trade and other receivables (Continued)

(f) Credit quality of the accounts receivable, notes receivable, other receivables and interest receivables

(i) Accounts receivable, notes receivable and other receivables 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:

a) Group 1 - Bank acceptance notes for which the repayment are guaranteed by large state-owned bank;

b) Group 2 - Commercial acceptance notes for which the repayment are guaranteed by corresponding issuer;

c) Group 3 - Accounts and other receivables due from customers or other counter parties with no defaults in the past.

	2008	2007
Group 1	2,117,562	694,281
Group 2	76,940	5,641
Group 3	1,710,144	1,607,858
	3,904,646	2,307,780

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

As at 31 December 2008, no accounts receivable, notes receivable and other receivables were past due but not impaired (2007: Nil).

(iii) As at 31 December 2008, interest receivables were not past due or impaired (2007: Nil.).

(iv) Impaired receivables

As at 31 December 2008, receivables that were impaired are analysed below:

	2008	2007
Accounts and other receivables	352,730	80,951
Less: Provision for impairment	(107,646)	(28,592)
	245,084	52,359

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.

(All amounts in RMB thousands unless otherwise stated)

21. Trade and other receivables (Continued)

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

	2008	2007
RMB	3,692,374	1,300,298
USD	371,987	80,176
EUR	223,923	1,016,874
GBP	—	240
	4,288,284	2,397,588

(h) The maximum exposure to credit risk at the reporting date is the carrying value of each class of receivable mentioned above.

22. Inventories

	2008	2007
Raw materials	1,712,142	798,282
Work in progress	551,694	423,088
Finished goods - parts and components	928,903	207,552
Finished goods - trucks	2,235,496	2,914,725
	5,428,235	4,343,647
Less: Write-down of inventories to net of realisable value	(100,566)	(95,902)
	5,327,669	4,247,745

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

	2008	2007
Cost of sales	19,961,613	15,253,805
Administrative expenses	5,669	9,833
Distribution costs	913	1,991
	19,968,195	15,265,629

(All amounts in RMB thousands unless otherwise stated)

23. Restricted cash

	2008	2007
Restricted cash denominated in RMB	**3,739,575**	2,098,057

The breakdown of restricted cash in nature as at 31 December 2008 and 2007 was as follows:

	2008	2007
Deposits for issuing bank acceptance notes	**1,688,796**	1,757,336
Deposits for issuing letters of credit	**199,766**	226,957
Security for bank borrowings	**1,793,984**	80,000
Security for confirming business	**30,000**	—
Mandatory reserve deposits (a)	**27,029**	33,764
	3,739,575	2,098,057

(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 Co., Ltd.

24. Cash and cash equivalents

	Group		Company	
	2008	2007	2008	2007
Cash on hand	**367**	296	**4**	8
Time deposits with initial term of over three months (a)	**2,886,192**	937,660	**—**	—
Short-term bank deposits (b)	**3,834,911**	9,139,137	**65,581**	7,551,664
Cash and cash equivalents	**6,721,470**	10,077,093	**65,585**	7,551,672
Denominated in:				
- RMB	**6,187,906**	2,436,090	**—**	—
- HKD	**416,508**	7,552,564	**65,585**	7,551,672
- USD	**66,845**	88,017	**—**	—
- GBP	**50,194**	354	**—**	—
- EUR	**—**	50	**—**	—
- others	**17**	18	**—**	—
	6,721,470	10,077,093	**65,585**	7,551,672

(All amounts in RMB thousands unless otherwise stated)

24. Cash and cash equivalents (Continued)

(a) The weighted average effective interest rates on time deposits, with maturities over 3 months, were 4.11% (2007: 3.15%) per annum.

(b) The weighted average effective interest rate on short-term bank deposits, with maturities ranging from one to three months, was 0.69% per annum (2007: 0.76%).

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

a) Group 1 - Major international banks;

b) 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 counter party 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	
	2008	2007	**2008**	2007
Group 1	**39,529**	54,359	**—**	—
Group 2	**6,681,574**	10,022,438	**65,581**	7,551,664
	6,721,103	10,076,797	**65,581**	7,551,664

(All amounts in RMB thousands unless otherwise stated)

25. Equity

(a) Share capital and premium - Company

	Number of shares	Amount: Ordinary shares	Amount: Share premium	Amount: 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
As at 1 January 2008 and 31 December 2008	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 HKD 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 HKD 10,000 divided into 10,000 shares of HKD 1.00 each, of which one share of HKD 1.00 was allotted, issued and credited as fully paid to the subscriber.

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

(ii) On 27 June 2007, (1) every one share of HKD 1.00 each in share capital of the Company was subdivided into ten shares; and (2) the authorised share capital was increased to HKD 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.

25. Equity (Continued)

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

(iii) On 30 June 2007, the Company acquired the entire equity interests in other companies principally engaged in the Listing Business from CNHTC (collectively the "Operating Companies") from Sinotruk BVI through a share swap, and became the holding company of the companies comprising the Group. As at 30 June 2007, 1,499,900,000 ordinary share of HKD 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 HKD 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) During the year 2008, the Company has repurchased 101,693,500 ordinary shares of the Company through the Stock Exchange of Hong Kong Limited at an aggregate consideration of approximately RMB 443,101,000, which has been deducted from retained earnings within shareholder's equity. The repurchased shares represent approximately 4.47% of the issued share capital of the Company.

(c) Capital reserves mainly include share premium of the Company and reserves arising from asset donations and transactions with CNHTC as a result of the Reorganisation.

(d) 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.

(e) 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)

26. Trade and other payables

	2008	2007
Trade and bills payables	6,194,129	5,030,493
Advances from customers	567,230	525,625
Staff welfare and salaries payable	153,280	139,597
Taxes liabilities other than income tax	73,512	22,312
Accrued expenses	220,379	219,705
Other payables	398,379	641,814
	7,606,909	6,579,546

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

	2008	2007
Less than 3 months	4,477,371	3,891,622
3 months to 6 months	1,510,727	1,035,232
6 months to 12 months	172,935	64,787
1 year to 2 years	20,128	24,416
2 years to 3 years	6,370	4,698
Over 3 years	6,598	9,738
	6,194,129	5,030,493

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

	2008	2007
RMB	7,598,007	6,551,994
USD	8,902	27,552
	7,606,909	6,579,546

(All amounts in RMB thousands unless otherwise stated)

27. Borrowings

	2008	2007
Non-current		
Long-term bank borrowings		
- guaranteed (a)	—	320,350
- secured (b)	10,784	11,942
- unsecured	333,650	592,135
	344,434	924,427
Current		
Long-term bank borrowings, current portion		
- secured (b)	1,306	398,015
- unsecured	596,000	60,000
	597,306	458,015
Short-term bank borrowings		
- guaranteed (a)	20,000	—
- secured (b)	1,677,000	1,033,173
- unsecured	5,385,905	2,966,000
	7,082,905	3,999,173
	7,680,211	4,457,188
Total borrowings	8,024,645	5,381,615

(All amounts in RMB thousands unless otherwise stated)

27. Borrowings (Continued)

(a) As at 31 December 2008, bank borrowings of approximately RMB 20,000,000 are guaranteed by a minority shareholder of a subsidiary (2007: Nil).

As at 31 December 2007, bank borrowings of approximately RMB 320,350,000 are guaranteed by CNHTC.

(b) As at 31 December 2008, bank borrowings of approximately RMB 12,090,000 (2007: RMB 13,819,000) are secured by certain land use rights (Note 16) and property, plant and equipment (Note 17). Bank borrowings of approximately RMB 1,677,000,000 (2007: RMB 1,429,311,000) are secured by certain bank deposits (Note 23).

The Group's borrowings were repayable as follows:

	2008	2007
Within 1 year	7,680,211	4,457,188
Between 1 and 2 years	41,306	594,013
Between 2 and 5 years	297,568	325,981
Wholly repayable within 5 years	8,019,085	5,377,182
Over 5 years	5,560	4,433
	8,024,645	5,381,615

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

	2008	2007
RMB	8,012,555	5,355,624
HKD	12,090	25,991
	8,024,645	5,381,615

(All amounts in RMB thousands unless otherwise stated)

27. Borrowings (Continued)

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

	2008	2007
RMB	5.57%	5.86%
HKD	2.25%	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:

	2008	2007
Within 6 months	6,350,995	4,201,265
Between 6 and 12 months	1,380,000	660,000
Between 1 and 5 years	293,650	520,350
	8,024,645	5,381,615

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:

	2008	2007
Carrying amount	344,434	924,427
Fair value	320,683	840,716

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.

The Group has the following undrawn borrowing facilities:

	2008	2007
Floating rate		
- expiring within one year	2,859,000	7,108,000

(All amounts in RMB thousands unless otherwise stated)

28. Deferred income tax

(a) Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income tax assets and liabilities relate to income tax levied by the same taxation authority on either the taxable entity or different taxable entities where there is an intention to settle the balances on a net basis. The offset amounts are as follows:

	2008	2007
Deferred tax assets:		
- Deferred tax asset to be recovered after more than 12 months	80,711	13,933
- Deferred tax asset to be recovered within 12 months	235,467	189,493
	316,178	203,426
Deferred tax liabilities:		
- Deferred tax liabilities to be recovered after more than 12 months	—	—
- Deferred tax liabilities to be recovered within 12 months	(1,461)	—
	(1,461)	—
Deferred tax assets (net)	314,717	203,426

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

	2008	2007
Beginning of the year	203,426	195,806
Credit to consolidated income statement (Note 11(a))	145,325	72,715
Charged directly to equity	(208)	—
Acquisition of a subsidiary (Note 6)	(3,241)	—
Effect of income tax rate changed from 1 January 2008 (Note 11(a))	—	(65,095)
Tax rate reduction for tax incentive (Note 11(a))	(30,585)	—
End of the year	314,717	203,426

(All amounts in RMB thousands unless otherwise stated)

28. Deferred income tax

(c) The movement in deferred tax assets and liabilities during the year, without taking into consideration the offsetting of balances within the same tax jurisdiction, is as follows:

Deferred tax assets	Impairment of assets	Pensions and other post-retirement benefits	Unrealised profit	Accrued Expenses and contingen-cies	Tax revalua-tion (Note (i))	Others	Total
As at 1 January 2007	39,036	32,700	60,718	62,284	–	1,068	195,806
Credit/(charge) to consolidated income statement (Note 11(a))	3,317	(5,407)	66,785	8,056	–	(36)	72,715
Effect of income tax rate changed from 1 January 2008 (Note 11(a))	(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
Credit/(charge) to consolidated income statement (Note 11(a))	30,386	(4,738)	(31,787)	7,571	138,753	3,152	143,337
Tax rate reduction for tax incentive (Note 11(a))	(2,288)	(2,005)	(13,310)	(12,692)	–	(290)	(30,585)
As at 31 December 2008	60,184	13,933	51,496	48,168	138,753	3,644	316,178

Deferred tax liabilities	Accelerated tax depreciation	Fair value gains	Total
As at 1 January 2007	–	–	–
As at 31 December 2007	–	–	–
Credit/(charge) to consolidated income statement (Note 11(a))	(150)	2,138	1,988
Charged directly to equity	–	(208)	(208)
Acquisition of a subsidiary (Note 6)	–	(3,241)	(3,241)
As at 31 December 2008	(150)	(1,311)	(1,461)

(i) On 23 October 2008, the Group obtained an approval (No. 125, Caishui [2008]) from Ministry of Finance (the "MOF") and State Administration of Taxation (the "SAT") regarding the tax bases of certain land use rights and property, plant and equipment. Pursuant to the approval, the tax bases of aforementioned assets can be adjusted to the revalued amount approved by the MOF and SAT. The revaluation is for tax purposes and not related to an accounting revaluation of an earlier period, or to one that is expected to be carried out in a future period. The tax effects of the aforementioned adjustments of tax bases were recognised as deferred tax assets and credited to the consolidated income statement, amounting to approximately RMB 138,753,000.

(All amounts in RMB thousands unless otherwise stated)

29. Termination benefits, post-employment benefits and medical insurance plan

	2008	2007
Termination benefits (a)	52,010	67,760
Post-employment benefits (b)	8,500	9,200
Post-employment medical insurance plan (c)	4,060	4,590
	64,570	81,550

(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 consolidated income statement are as follows:

	2008	2007
Termination benefits, included in staff costs	2,280	2,370

(b) For employees who formally retired before 1 May 2002, the Group is committed to pay defined benefits to these employees on a monthly basis. For employees who retired after 1 May 2002, the Group has no payment obligations.

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

	2008	2007
Present value of benefit plans	10,630	8,870
Unrecognised actuarial (losses)/gains	(2,130)	330
Liability in the balance sheet	8,500	9,200

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

	2008	2007
Beginning of the year	9,200	9,960
Total expenses (interest cost)	360	310
Benefits paid	(1,060)	(1,070)
End of the year	8,500	9,200

(All amounts in RMB thousands unless otherwise stated)

29. Termination benefits, post-employment benefits and medical insurance plan (Continued)

(c) The Group entities operating in Ji'nan City provide post-employment 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 consolidated 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 insurance plan. According to the relevant regulations, the defined contributions that should be borne by the Group entities are calculated based on 8% of the total salary of employees, subject to certain ceiling, and are paid to the Ji'nan labor and social welfare authorities. Under the social medical insurance plan, the Group has been relieved from obligation for post-employment 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.

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

	2008	2007
Present value of benefit plan	4,820	4,700
Unrecognised actuarial losses	(760)	(110)
Liability in the balance sheet	4,060	4,590

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

	2008	2007
Beginning of the year	4,590	5,090
Total expenses (interest expense)	190	170
Benefits paid	(720)	(670)
End of the year	4,060	4,590

(All amounts in RMB thousands unless otherwise stated)

29. 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:

	2008	2007
Post-employment benefits and medical insurance plan discount rate	1.75%	4.50%
Average salary increase rate	10% to 12%	5% to 12%

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

30. Provisions for other liabilities

	Legal claims	Products warranties	Total
As at 1 January 2007	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
Additional provision	555	385,174	385,729
Untilised during the year	—	(412,306)	(412,306)
As at 31 December 2008	2,764	123,285	126,049

(All amounts in RMB thousands unless otherwise stated)

31. Notes to the Consolidated cash flow statement

(a) Cash (used in)/generated from operations

	2008	2007
Profit before income tax	1,299,105	1,888,764
Adjustments for:		
- Depreciation (Note 17)	347,559	230,482
- Amortisation (Note 16 and 19)	10,127	7,958
- Loss on disposals of property, plant and equipment (see below)	3,049	2,396
- Fair value gains on financial assets at fair value through profit or loss	(893)	—
- Fair value losses on investment property	882	—
- Interest income (Note 10)	(289,415)	(173,180)
- Interest expense (Note 10)	240,668	219,009
- Foreign exchange (gains)/losses on financing activities (Note 10)	(1,683)	2,315
- Foreign exchange losses on cash	12,283	102,436
	1,621,682	2,280,180
Changes in working capital (excluding the effects of acquisition and exchange differences on consolidation):		
- Inventories	(975,766)	(1,583,001)
- Trade and other receivables and amounts due from related parties	(1,775,904)	(209,866)
- Restricted cash	33,926	(163,129)
- Discounted bills	—	474,700
- Financial assets at fair value	8,622	—
- Trade and other payables and amounts due to related parties	927,342	1,185,913
- Provisions for other liabilities and charges	(26,577)	82,231
- Termination benefits, post-employment benefits and medical insurance plan	(16,980)	(17,540)
Cash (used in)/generated from operations	(203,655)	2,049,488

(All amounts in RMB thousands unless otherwise stated)

31. Notes to the Consolidated cash flow statement (Continued)

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

	2008	2007
Net book amount (Note 17)	24,363	11,125
Loss on disposals of property, plant and equipment	(3,049)	(2,396)
Net-off with payables	(12,689)	—
Proceeds from disposal of property, plant and equipment	8,625	8,729

32. Contingencies and guarantees

The Group has contingent liabilities in respect of legal claims arising in the ordinary course of business. The Directors are of the opinion that no material liabilities will arise from the contingent liabilities other than those provided for (Note 30).

33. Commitments

(a) Capital commitments

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

	2008	2007
Property, plant and equipment	869,960	531,862

(b) Operating lease commitments - As a lessee

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

	2008	2007
No later than 1 year	18,978	9,841
Later than 1 year and no later than 2 years	5,888	4,094
Later than 2 year and no later than 5 years	2,983	998
Later than 5 years	2,229	2,515
	30,078	17,448

(All amounts in RMB thousands unless otherwise stated)

33. Commitments (Continued)

(c) Lease payments receivable - As a lessor

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

	2008	2007
No later than 1 year	5,978	6,324
Later than 1 year and no later than 2 years	3,731	4,107
Later than 2 year and no later than 5 years	12,335	11,844
Later than 5 years	1,870	1,199
	23,914	23,474

34. Investments in subsidiaries - the Company

	2008	2007
Investments, at cost:		
Listed investments	1,926,283	1,926,283
Unlisted investments	9,479,847	2,456,869
	11,406,130	4,383,152
Market value of listed investments	3,402,722	13,642,122

34. Investments in subsidiaries - the Company (Continued)

As at 31 December 2008, 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 419.43	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 6,094.75	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 555	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 206	100% (Directly held)	Import and export of heavy duty trucks
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 10.5	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	HKD 1,000.01	100% (Directly held)	Consulting service and import and export tradings and asset operations
Sinotruk Finance Co., Ltd. （中國重汽財務有限公司） (i)	PRC/ 4 October 1987	Limited liability company	RMB 1,000	78.92% (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 338.49	100% (Indirectly held)	Manufacture and sales of oil pump and nozzle

34. 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 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 1,700	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. （濟南復強動力有限公司）	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
Liuzhou Yunli Special Vehicle Co., Ltd. （中國重汽集團柳州運力專用汽車有限公司）(ii)	PRC/ 11 April 1989	Limited liability company	RMB 76.47	60% (Indirectly held)	Refits and sells heavy duty trucks
Ji'nan Ganghao Development Co., Ltd. （濟南港豪發展有限公司）	PRC/ 11 April 2008	Limited liability company	HKD 350	100% (Indirectly held)	Manufacture and sales of trucks and spare parts
Hangzhou Ganghang Power System Co., Ltd. （杭州港杭動力系統有限公司）	PRC/ 17 September 2008	Limited liability company	HKD 60	100% (Indirectly held)	Manufacture and reproduction of engines
Hangzhou Ganghao Power System Co., Ltd. （杭州港豪動力系統有限公司）	PRC/ 18 September 2008	Limited liability company	HKD 140	100% (Indirectly held)	Manufacture and reproduction of engines

(i) According to the approval by China Banking Regulatory Bureau of Shandong Province on 24 July 2008, the Company made a capital injection to Sinotruk Finance Co., Ltd. of RMB 500,000,000. With this capital injection, the Company increased its equity interest in Sinotruk Finance Co., Ltd. from 54.42% to 76.47%.

According to the approval by China Banking Regulatory Bureau of Shandong Province on 7 August 2008, the Company acquired 0.68% and 1.77% equity interest of Sinotruk Finance Co., Ltd. held by China Yaohua Glass Group Corporation and by Sinopec Asset and Management Corporation Yizheng Branch with cash consideration of RMB 6,950,000 and RMB 16,260,000, respectively.

(ii) On 31 May 2008, the Group acquired 60% of equity interest in Liuzhou Yunli, a company that refits and sells heavy duty trucks, for a cash consideration of approximately RMB 49,249,000 (Note 6).

(iii) On 17 September 2008, Sinotruk Ji'nan Technical Center Co., Ltd.（中國重汽集團濟南技術中心有限公司）was deregistered and merged with Sinotruk Ji'nan Power Co., Ltd.

(iv) On 31 December 2008, Shandong Dadi Construction Supervision Co., Ltd. （山東大地建設監理有限責任公司）was deregistered and merged with Sinotruk Factory Design Institute Co., Ltd.

35. Related party transactions

Sinotruk BVI, a company incorporated in British Virgin Islands, is the parent company of the Group. The ultimate parent company of the Group is CNHTC, a company incorporated in the PRC.

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 2007 and 2008.

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（中國重汽（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嶽專用汽車有限公司）	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（中國重汽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)

35. Related party transactions

(a) Significant related party transactions

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

	2008	2007
Sale of trucks		
CNHTC Special Vehicle Company	159,793	188,730
CNHTC Taian Wuyue Special Truck Co., Ltd.	78,989	35,935
CNHTC Lease Firm	14,658	3,269
CNHTC Ji'nan Investment Co., Ltd.	3,415	6,372
CNHTC Ji'nan Realty Management Co., Ltd.	103	—
	256,958	234,306

	2008	2007
Sale of spare parts		
CNHTC Ji'ning Commercial Truck Co., Ltd.	657,775	348,720
CNHTC Ji'nan Investment Co., Ltd.	397,214	443,466
CNHTC Taian Wuyue Special Truck Co., Ltd.	11,700	2,261
CNHTC Ji'nan Construction Project Management Co., Ltd.	2,579	—
CNHTC	2,412	3,994
Hangzhou Engine Factory	1,353	—
CNHTC Ji'nan Bus Co., Ltd.	1,283	7,438
CNHTC Ji'nan Realty Management Co., Ltd.	50	—
CNHTC Special Vehicle Company	—	1,062
	1,074,366	806,941

	2008	2007
Purchases of trucks		
CNHTC Special Vehicle Company	341,004	269,970
CNHTC Ji'nan Investment Co., Ltd.	233,805	134,191
CNHTC Taian Wuyue Special Truck Co., Ltd.	130,544	98,719
CNHTC Ji'ning Commercial Truck Co., Ltd.	12,005	1,092
CNHTC Ji'nan Bus Co., Ltd.	—	1,496
	717,358	505,468

(All amounts in RMB thousands unless otherwise stated)

35. Related party transactions (Continued)

(a) Significant related party transactions (Continued)

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

	2008	2007
Purchases of spare parts		
CNHTC Ji'nan Bus Co., Ltd.	81,353	57,451
CNHTC Ji'nan Investment Co., Ltd.	60,656	65,524
Hangzhou Engine Factory	4,822	14,700
CNHTC	2,505	104
CNHTC Ji'nan Construction Project Management Co., Ltd.	1,124	—
CNHTC Ji'ning Commercial Truck Co., Ltd.	1,015	125
CNHTC Special Vehicle Company	621	66
CNHTC Ji'nan Realty Management Co., Ltd.	130	—
Ji'nan Automobile Test Center	36	—
CNHTC Real Estates Company	—	10,390
CNHTC Taian Wuyue Special Truck Co., Ltd.	—	126
	152,262	148,486

	2008	2007
Sales of services		
CNHTC Special Vehicle Company	953	2,000
CNHTC Ji'nan Realty Management Co., Ltd.	222	—
CNHTC Ji'nan Bus Co., Ltd.	158	29
Ji'nan Automobile Test Center	150	—
CNHTC Ji'nan Construction Project Management Co., Ltd.	128	—
CNHTC Ji'nan Investment Co., Ltd.	71	388
CNHTC Taian Wuyue Special Truck Co., Ltd.	67	—
CNHTC Ji'ning Commercial Truck Co., Ltd.	49	—
Shandong Xin Hai Guarantee Co., Ltd.	—	74
	1,798	2,491

(All amounts in RMB thousands unless otherwise stated)

35. Related party transactions (Continued)

(a) Significant related party transactions (Continued)

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

	2008	2007
Purchases of services		
CNHTC	47,521	57,951
CNHTC Ji'nan Realty Management Co., Ltd.	13,194	8,982
Ji'nan Automobile Test Center	5,733	1,282
CNHTC Ji'nan Construction Project Management Co., Ltd.	2,590	—
CNHTC Ji'nan Investment Co., Ltd.	342	2,281
CNHTC Ji'ning Commercial Truck Co., Ltd.	116	—
CNHTC Taian Wuyue Special Truck Co., Ltd.	74	577
CNHTC Ji'nan Bus Co., Ltd.	15	2,569
CNHTC Real Estates Company	3	—
Hangzhou Engine Factory	—	4,653
CNHTC Special Vehicle Company	—	1,253
	69,588	79,548

	2008	2007
Rental income		
Ji'nan Automobile Test Center	630	551
Shandong Xin Hai Guarantee Co., Ltd.	75	75
	705	626

	2008	2007
Rental expenses		
CNHTC	14,493	10,676
Hangzhou Engine Factory	6,050	10,432
CNHTC Special Vehicle Company	35	—
	20,578	21,108

(All amounts in RMB thousands unless otherwise stated)

35. Related party transactions (Continued)

(a) Significant related party transactions (Continued)

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

	2008	2007
Purchases of construction services		
CNHTC Ji'nan Construction Project Management Co., Ltd.	171,298	—
	171,298	—

(ii) Significant transactions with other state-owned enterprises

	2008	2007
Sale of trucks	486,909	273,251
Purchases of spare parts	3,282,111	3,559,391
Purchases of services	5,096	215,547
Interest expense on bank borrowings	189,321	145,692
Interest income from bank deposits	289,415	173,180

(iii) Key management compensation

	2008	2007
Key management compensation		
Directors		
- Basic salaries, housing allowances, other allowances and benefits-in-kind	4,750	4,027
Senior management		
- Basic salaries, housing allowances, other allowances and benefits-in-kind	1,254	814
	6,004	4,841

(All amounts in RMB thousands unless otherwise stated)

35. Related party transactions (Continued)

(b) Balances with related parties

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

	2008	2007
Trade and other receivables		
Trade receivables due from		
CNHTC Ji'nan Investment Co., Ltd.	27,327	34,049
CNHTC Ji'ning Commercial Truck Co., Ltd.	14,429	46,450
CNHTC	143	300
CNHTC Ji'nan Construction Project Management Co., Ltd.	6	—
CNHTC Special Vehicle Company	—	873
	41,905	81,672

The ageing of above trade receivables due from other state-owned enterprises are all less than 1 year.

	2008	2007
Other receivables due from		
Hangzhou Engine Factory	27,807	684
CNHTC	—	63,688
	27,807	64,372

	2008	2007
Prepayments		
CNHTC Ji'nan Bus Co., Ltd.	1,005	—
CNHTC Ji'nan Realty Management Co., Ltd.	600	—
CNHTC Special Vehicle Company	—	18,915
CNHTC Ji'nan Investment Co., Ltd.	—	3,329
CNHTC Taian Wuyue Special Truck Co., Ltd.	—	1,357
	1,605	23,601

(All amounts in RMB thousands unless otherwise stated)

35. Related party transactions (Continued)

(b) Balances with related parties (Continued)

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

As at 31 December 2008, trade and other receivables due from related parties were not past due or impaired.

	2008	2007
Trade and other payables		
Trade payables due to		
CNHTC Ji'nan Construction Project Management Co., Ltd.	777	—
CNHTC Special Vehicle Company	527	19,154
CNHTC Taian Wuyue Special Truck Co., Ltd.	52	1,230
Hangzhou Engine Factory	10	—
CNHTC Ji'nan Bus Co., Ltd.	—	95
CNHTC Ji'nan Investment Co., Ltd.	—	52
Ji'nan Automobile Test Center	—	32
	1,366	20,563

The ageing of above trade payables due to related parties are all less than 1 year.

	2008	2007
Other payables due to		
CNHTC Special Vehicle Company	523	—
CNHTC Taian Wuyue Special Truck Co., Ltd.	400	1,000
Sinotruk (BVI)	—	1,212
CNHTC Sales Company	—	361
CNHTC Ji'ning Commercial Truck Co., Ltd.	—	49
CNHTC Ji'nan Realty Management Co., Ltd.	—	22
	923	2,644

	2008	2007
Advances from customers		
CNHTC Taian Wuyue Special Truck Co., Ltd.	16,335	1,361
CNHTC Special Vehicle Company	398	651
CNHTC Lease Firm	285	5
CNHTC Ji'nan Investment Co., Ltd.	—	30
	17,018	2,047

(All amounts in RMB thousands unless otherwise stated)

35. Related party transactions (Continued)

(b) Balances with related parties (Continued)

(ii) Balances with other state-owned enterprises

	2008	2007
Balances with other state-owned enterprises		
Trade receivables	137,253	32,455
Other receivables	—	48,578
Trade payables	239,035	131,847
Other payables	—	2,158
Prepayments	44,939	92,582
Advances from customers	2,517	16,469
Restricted cash	3,739,575	2,098,057
Cash and cash equivalents	6,681,574	10,022,438
Borrowings	8,024,645	5,361,615

36. Events after the balance sheet date

On 2 January 2009, the Company repurchased of 11,575,000 ordinary shares of the Company at an aggregate consideration of approximately HKD 67,723,000 (RMB 59,725,000) through the Stock Exchange of Hong Kong Limited.

On 26 February 2009, the Company cancelled 113,268,500 ordinary shares. After the cancellation, the Company's ordinary shares in issue were reduced from 2,275,199,000 to 2,161,930,500.

In March 2009, the Group gradually acquired 60% equity interests in Hubei Huawei Special-purpose Automobile Manufacturing Co., Ltd. ("Hubei Huawei"). Hubei Huawei is mainly engaged in refitting and sales of heavy duty trucks.

37. Approval of accounts

These consolidated financial statements have been approved for issue by the Board of Directors of the Company on 20 April 2009.

Five Years Financial Summary

Results

	For the year ended 31 December				
	2004 RMB'000	2005 RMB'000	2006 RMB'000	2007 RMB'000	**2008 RMB'000**
Turnover	10,163,580	9,114,437	12,767,450	21,297,372	**26,000,199**
Profit before income tax	551,601	235,962	1,186,658	1,888,764	**1,299,105**
Income tax expense	(189,950)	(112,357)	(406,775)	(500,806)	**(185,909)**
Profit for the year	361,651	123,605	779,883	1,387,958	**1,113,196**
Attributed to:					
Equity holders of the Company	301,323	77,869	638,465	1,109,185	**880,774**
Minority interests	60,328	45,736	141,418	278,773	**232,422**
	361,651	123,605	779,883	1,387,958	**1,113,196**

ASSETS AND LIABILITIES

	As at 31 December				
	2004 RMB'000	2005 RMB'000	2006 RMB'000	2007 RMB'000	**2008 RMB'000**
Total assets	11,464,048	15,773,300	15,537,988	24,165,530	**28,302,312**
Total liabilities	12,752,240	17,175,913	13,952,955	12,262,223	**15,858,580**
Total equity	(1,288,192)	(1,402,613)	1,585,033	11,903,307	**12,443,732**
Attributed to:					
Equity holders of the Company	(1,641,626)	(1,806,179)	940,932	10,987,079	**11,305,492**
Minority interests	353,434	403,566	644,101	916,228	**1,138,240**
	(1,288,192)	(1,402,613)	1,585,033	11,903,307	**12,443,732**

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