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Overview

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

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

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

We are one of the few heavy truck manufacturers in China that also have the ability to produce heavy truck engines. We currently produce substantially all the engines used in our truck production. We also sell industrial and construction machinery engines to independent third parties. We plan to increase our external sale of engines in the future depending on market conditions and our production capacity. In addition, we produce other key heavy truck parts and components, such as cabins and axles, mostly for internal use.

Our heavy trucks are widely used under diverse conditions. We have developed a highly modularized product design system and a flexible manufacturing process. Our design modularization allows us to design key parts and components compatible for different models of our heavy trucks, and our manufacturing flexibility enables us to produce different models of trucks on the same assembly line. We believe this combination of design modularization and manufacturing flexibility has significantly increased our competitiveness in production volume, quality and cost.

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We believe that we are a leader in various technologies in our industry in China. Our research and development team has over the years developed numerous proprietary technologies and innovations in connection with our efforts to launch new products. We have also, through collaboration with international manufacturers, licensed or purchased technologies from heavy truck manufacturers in Austria and Germany. As of September 30, 2007, we were the legal owner of 52 registered patents issued by the PRC patent authorities, of which six were invention patents, 45 were utility model patents and one was a design patent. As of the same date, our Parent Company was the legal owner of 578 registered patents issued by the PRC patent authorities, of which 18 were invention patents, 481 were utility model patents and 79 were design patents. We are authorized to use all of the patents owned by our Parent Company free of charge for an initial term of three years, which is renewable at our option under the same terms.

Our trucks are sold throughout China, one of the world's fastest-growing economies in recent years. As China's GDP and fixed asset investments continue to grow and the national highway network continues to expand, we expect the demand for heavy trucks will rise accordingly. In addition, we also sell a portion of our products overseas. Since 2004, we have rapidly expanded our overseas markets, particularly in the Middle East and the Russia and our products were also sold to Southeast Asia, Africa, Central and South America and Central Asia. For 2004, 2005, 2006 and the nine months ended September 30, 2007, approximately 0.9%, 11.5%, 12.2% and 16.7%, respectively, of our sales revenue was attributable to exports.

Our headquarters and principal manufacturing facilities are located in the city of Jinan, the provincial capital of Shandong province, China. We also manufacture some of our engines in Hangzhou and some of our parts and components in Chongqing. Our locations allow us to service the most industrialized and economically developed regions of China, including the northeast, home of China's heavy machinery industry, and eastern China, one of the most rapidly growing economic regions in China today. Our operations are supported by an extensive sales and service network. As of September 30, 2007, our domestic sales network comprised approximately 780 third party companies that had established sales relationship with us. Of these third party companies, 101 were 4S centers that sell our products and provide services to our products exclusively, 35 were exclusive dealers that sell our products exclusively and approximately 650 were general dealers or sales partners that have entered into framework agreements with us to potentially become our general dealers in the future. We also had 66 domestic sales offices to manage our 4S centers, dealers and sales partners. Our domestic after-sales service network comprised approximately 700 contracted service stations throughout China. In addition, we sell our products to approximately 30 countries and regions. As of September 30, 2007, we distributed our products outside China through approximately 20 export agents and dealers. We are also planning to build three CKD facilities overseas through cooperation with local manufacturers.

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

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Our Competitive Strengths

We believe we have the following competitive strengths:

China's leading integrated manufacturer of heavy trucks with the most comprehensive models of heavy trucks and chassis and the largest market share in our core markets in China

We, together with our Parent Company, are the largest heavy truck manufacturer in China as measured by sales volume for the nine months ended September 30, 2007 as well as the largest producer of cargo trucks and truck chassis with GVW over 19 tonnes. We are the principal contributor to the manufacturing and sales of Sinotruk Group, accounting for approximately 95.4%, 85.3%, 90.5% and 90.1%, respectively, in terms of heavy truck sales volume for 2004, 2005, 2006 and the nine months ended September 30, 2007. Based on the statistics we compiled from information extracted from the database of NDRC, we offer the most comprehensive heavy truck models among all automotive manufacturers in China. We have over 40 years of experience specializing in the design, engineering and manufacturing of heavy trucks since the predecessor of our Parent Company manufactured China's first heavy truck in 1960. We are also one of the few heavy truck manufacturers in China that have the ability to produce heavy truck engines and other key parts and components. Our products are well recognized for their quality, power and safety. We believe our four series of heavy trucks, namely, Huanghe, Sitaier, Sitaier King and HOWO, with more than 2,000 registered models under the NDRC classification, represent the most comprehensive models of heavy trucks and chassis available for selection by our PRC end-users. Our products service a wide range of customers from various industries, including the infrastructure, construction, container transportation, logistics, mining, steel and chemical industries.

Over the past few years, we have achieved rapid growth in our operations and market share. According to the China Automotive Industry Association, between 2001 and 2006, Sinotruk Group increased its market share in China from 5.2% to 19.6% as measured by sales volume. For the nine months ended September 30, 2007, Sinotruk Group further improved its market share to 20.8%, making it the fastest growing heavy truck manufacturer in the past five years in terms of growth of market share. Between 2004 and 2006, Sinotruk Group increased its market share from approximately 13.1% to 22.7% and further to 24.6% for the nine months ended September 30, 2007 in the category of cargo trucks and truck chassis with GVW over 19 tonnes.

For 2004, 2005, 2006 and the nine months ended September 30, 2007, we exported 216 units, 3,817 units, 5,869 units and 10,013 units of heavy trucks, respectively. According to the China Chamber of Commerce for Import and Export of Machinery and Electronic Products, we were ranked No. 1 in terms of export vehicles in 2006.

Leader in heavy truck research and development with the largest number of registered patents among heavy truck manufacturers in China

We believe that we are a leader in the research and development in the heavy truck industry in China. We are the first domestic manufacturer to import heavy truck technologies from Europe. Our research and development team has gained expertise in truck design and engineering through over two decades of proprietary research and international collaborations.

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To date, we have successfully designed, engineered and developed sophisticated automotive products and have continuously researched and improved our manufacturing and engineering processes. We have also cooperated with international truck and component manufacturers and research companies to further advance our technological innovation and product development.

Our research and development center is a nationally accredited heavy truck research and development institute and we have led a national heavy truck research project commissioned by the PRC government commonly known as the “863” program. We also received gold medals for our driver cabin, our driving axle, our truck chassis, and our suspension system from China International Patent and Brand Expo organized by the PRC State Intellectual Property Office in July 2006.

We believe that we, together with our Parent Company, have the largest number of registered patents among all heavy truck manufacturers in China. As of September 30, 2007, we owned six invention patents, 45 utility model patents and one design patent issued by the PRC patent authorities. As of the same date, our Parent Company was the legal owner of 578 registered patents issued by the PRC patent authorities, of which 18 were invention patents, 481 were utility model patents and 79 were design patents. We are authorized to use these patents owned by our Parent Company free of charge for an initial term of three years, which is renewable at our option under the same terms. Our research and development team endeavors to continue to place us at the technological forefront of our industry in China.

Highly modularized design system and flexible manufacturing process which enable us to maintain operational efficiency and product diversity

We have established a highly modularized design system and a flexible manufacturing process to manufacture our heavy truck products. Our modularization approach focuses on the design of key parts and components that are compatible for different models of our truck products. Through modularization, we are able to streamline our new product design process and significantly reduce the requirements for different types of key parts and components in our production of various models of heavy trucks. Such modularization approach reduces our design, production, raw material and inventory costs, and improves the quality of our products.

We have also developed a flexible manufacturing process supported by our proprietary “truck resource planning” or TRP system. Our flexible manufacturing process enables us to arrange production plans promptly in accordance with customer orders and to produce all of our four product series on just three general assembly lines. Our TRP system simplifies our internal workflows and procedures by integrating the management of our inventory, production and logistics. We are able to monitor in real time each stage of our operations, from customer orders, to planning, purchase and assembly, to testing, warehousing and payment collection. Upon receipt of a truck purchase order, we are normally able to complete the production within approximately seven to 15 days. With our TRP system, we are also able to make timely adjustments to maximize our efficiency and to rectify or modify our manufacturing processes. As a result, we are able to more timely respond to demands of more discerning customers who make specific requests to modify or alter our standard models from time to time.

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Cost competitiveness through centralized procurement and fully integrated production with the ability to manufacture most of our key parts and components internally

We have a centralized procurement system for most of our requirements for raw materials, parts and components sourced from third parties. As a result of our size and increased economies of scale, we are able to negotiate volume discounts and reduce our costs of supplies on a per-unit basis. We source most of our raw materials, parts and components from a list of preferred suppliers through a competitive bidding process to ensure the desired quality, quantity and pricing.

We have adopted a fully integrated operating model. We are able to produce most of the key parts and components for our trucks, including cabins, engines, axles and truck frames, and are increasingly less dependent on external suppliers of these key parts and components. Our ownership, control and management over all of our operating subsidiaries allows us to tailor our key parts and components, improve their quality and coordinate their production in order to enhance our product quality and cost competitiveness.

Extensive sales and service network supported by an advanced proprietary MIS system to offer our products and services to customers nationwide and overseas

We have established an extensive sales and after-sales service network in China. As of September 30, 2007, we had 66 sales offices, approximately 780 third party companies that had established sales relationship with us, of which 101 were 4S centers and 35 were exclusive dealers, and approximately 700 contracted service stations throughout China. We have also established a nationwide network of over 200 refitting companies. Our extensive sales and after-sales service network allows us to retain existing customers and attract new customers. Our relationship with local refitting companies allows us to further penetrate regional markets in China.

Through our service motto of “*qinren*” (親人), we endeavor to provide timely and customized services to our customers as if they were our family members. Our extensive service network and service approach allow us to closely monitor market trends and customer preferences, and to tailor our products to the specifications of our customers. We have also developed an advanced proprietary “one-through-line” (一線通) management information system, or MIS system, which distinguishes us from our domestic peers. This one-through-line MIS system is connected with our TRP system. Through our TRP and MIS systems, we are able to monitor the entire production and delivery process of each truck product real time. Furthermore, our TRP and MIS systems allow us to trace each truck and key part and component by its unique identification number to collect and compile data on problems encountered subsequent to the delivery of our products and to provide after-sales services on a timely basis.

In order to expand our international market, we have selected established local dealers in foreign countries to provide sales and after-sales services for our products. As of September 30, 2007, we distribute our products outside China through approximately 20 export agents and dealers. Our products sold to the overseas markets are serviced by approximately 46 third party service stations. We are also planning to build three overseas CKD facilities through cooperation with local manufacturers. According to the China Chamber of Commerce for Import and Export of Machinery

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and Electronic Products, our exports sales in 2006 were the largest among the PRC truck manufacturers and we believe our overseas sales and service networks contributed to our success in export sales. In overseas markets where we have relatively large sales volumes, we also engage third parties to collect market intelligence in order to better respond to customer requirements.

Well-recognized brand name and solid business reputation with differentiated product images within each targeted market

We have long specialized in the design and manufacturing of heavy trucks. Our products are well recognized for their quality, power, cost-effectiveness and safety. In addition, we provide comprehensive after-sales services, which, together with the reliability of our products, help to establish our solid reputation in China. In recent years, we have sought to further distinguish ourselves by introducing new series of heavy truck products to convey different levels of prestige, utility and functionality to our customers. Our Huanghe trucks were the first heavy truck series we introduced into the PRC market in the 1960s, and we have since positioned the Huanghe series as an efficient, robust and affordable model of heavy trucks. Our Sitaier series, which enjoys a wide customer base, benefited from our adoption of the Steyr technology from Austria in the 1980s. We launched our Sitaier King series to cater to China's new generation of corporate users and private enterprises, who demand greater performance and a more comfortable driving environment in their trucks. Through our research and development efforts, we developed the HOWO series in 2005, which targets high-end market and more discerning customers. With the adoption of many leading technologies, our HOWO series provides additional safety features and a more comfortable driving environment compared to our previous product series.

We believe that our well-recognized “中國重汽” (China Heavy Truck), “SINOTRUK” brand name and the solid reputation and proven track record of our products and services constitute key competitive advantages in retaining customer loyalty and penetrating new regional markets.

Experienced and entrepreneurial management team with strategic vision and leadership

Most of our senior management have over 20 years of experience in the automotive industry in China and have been with us since 2000. Under their collective leadership, Sinotruk Group has become China's leading heavy truck manufacturer in less than five years.

Mr. Ma Chunji, our chairman, is a highly regarded corporate executive in China with over 30 years' experience in government, corporate management and strategic planning. Under his leadership, Sinotruk Group has emerged into a leading heavy truck manufacturer in China. Mr. Ma received a “National Model Worker” award, one of the highest civilian honors in China, from the State Council in 2005. In 2006, he was conferred a lifetime membership at the World Confederation of Productivity Science. Mr. Cai Dong, our president, is a well-recognized manufacturing specialist who leads our research and development, production and marketing. He received an “outstanding national entrepreneur” award conferred jointly by the China United Enterprises Association, China Entrepreneurs Association and China Enterprise Management Science Foundation in April 2006. Mr.

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Ma, Mr. Cai and other members of our senior management have made significant contributions to the growth of our business from annual sales of approximately 7,300 units of trucks in 2001 to 51,573 units of trucks in 2006 and to 63,274 units of trucks for the nine months ended September 30, 2007. Their strategic vision, experience and entrepreneurship are key to our long-term success.

Our Business Strategies

We aim to strengthen our leading position in the PRC heavy truck industry, particularly in the heavier categories of heavy trucks, to globalize our business and to become a leading heavy truck manufacturer in the world. We will focus on technological leadership, cost competitiveness, product diversification and international expansion. To that end, we have developed the following business strategies:

Continue to develop new technologies and products

We have developed four branded product series to target different customer groups. We have introduced more than 2,000 models within the Huanghe, Sitaier, Sitaier King and HOWO series. We intend to continue to capitalize on our research and development strengths to develop new technologies and products.

- We plan to enhance the functionality and features of our existing series to meet the needs of users of specialty vehicles, such as tippers, cement mixers, oil tank trucks and fire engines.
- We will continue to place strong emphasis on developing new product series, mainly the heavier categories of heavy trucks, by applying the latest technologies to meet changing customer needs. We are actively developing a new truck manufacturing platform to produce the next-generation heavy trucks. We are also developing new diesel engine models with higher fuel efficiency, higher-power performance and better emission control.
- We will also enhance and expand our research and development capabilities of our nationally accredited Sinotruk Jinan Technical Center. Through focused research and development efforts and procurement of additional state-of-the-art testing equipment, we plan to develop new models of heavy trucks, including key parts and components, with less deadweight, higher utility, lower level of emission and better fuel efficiency.

Enhance our operating efficiency and cost competitiveness

We will continue to enhance our operating efficiency and our cost competitiveness through the following measures:

- We plan to upgrade our existing production facilities and deploy more advanced manufacturing equipment in order to improve product quality and reduce production costs per unit through economies of scale and advanced technologies.

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- With our proprietary TRP system, we endeavor to further streamline our overall production process and reduce intermediate steps to achieve more accurate deployment of parts and components. We intend to integrate the application of our TRP system with our financial reporting and control system to strengthen our internal control and improve our operating efficiency.
- As we further enhance our production scale, we intend to use our increased purchasing power to attract more suppliers to build new plants near our manufacturing sites to better serve our procurement needs.

Expand our production capacity to meet customer demand and capture growth opportunities in the heavy truck market

We plan to continue to expand our production capacity in order to meet market demand for our products, to capture growth opportunities in the heavy truck market and to gain additional market share both in China and overseas. We intend to upgrade our manufacturing technologies and expand our production capacities of trucks, engines and other key parts and components.

- We are constructing new truck manufacturing facilities in Zhangqiu district in Jinan to increase the annual production capacity of Sinotruk Jinan Commercial Truck Company to 50,000 units of heavy trucks by 2010 from its current output of 10,000 units a year.
- We are relocating the engine manufacturing facilities of Sinotruk Hangzhou Engine to Xiaoshan district in Hangzhou and expanding its annual engine manufacturing capacity to 100,000 units by 2008 from its current output of 60,000 units a year.
- We are also expanding our production capacity of other key parts and components, such as cabins and axles, in keeping up with our truck and engines expansion plans.

Expand our domestic sales and service network to penetrate new regional markets

We have established extensive sales and service network throughout China. We intend to further expand our domestic network to penetrate new regional markets.

- We will contract additional third party companies and service stations to sell and service our products across China. In addition, we will contract dealers to sell our spare parts exclusively and encourage large dealers in our major markets to develop 4S centers. We aim to establish sales relationships with 410 additional third party companies, including 55 4S centers, 125 exclusive dealers and 230 general dealers and sales partners, as well as 330 contracted service stations by 2008.
- We will continue our successful relationship with refitting companies to further strengthen our penetration in regional markets and increase the variety of our refitted trucks.
- We will enhance our service scope by further increasing our *qinren* (“親人”) service standards.

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We believe that, with the expansion of our sales and service network, we will be able to further strengthen our market influence, increase our market share and enhance the level of customer satisfaction.

Globalize our business

We have achieved initial success in our expansion into the overseas markets and we currently sell our products in approximately 30 countries and regions in the world. Our export sales accounted for 0.9%, 11.5%, 12.2% and 16.7%, respectively, of our revenue for 2004, 2005, 2006 and the nine months ended September 30, 2007. Our ultimate goal is to leverage our success in the PRC market to become a major player in the global heavy truck market. To that end, we intend to initially focus our efforts on servicing customers in developing countries, and gradually expand into developed countries when we consider it appropriate to do so. Depending on the tariff rates of different countries and regions, we plan to export either completed trucks or our CKD products. We aim to increase our export sales volume to one-third of our overall sales volume by 2010.

- We have identified market opportunities in certain developing countries and regions where the level of economic development is comparable to that of China. We will continue to choose our target markets based on their similarities with the PRC market in terms of customer needs, requirements and purchasing power and will continue to focus on these markets in the near future.
- We plan to further expand into overseas markets through a variety of methods, including: (i) establishing more branch offices in overseas countries; (ii) enhancing our sales and service network through cooperation with local dealers and service providers; and (iii) building CKD centers with local heavy truck manufacturers.

Continue to build our SINOTRUK brand-name

Our brand name of “中國重汽” (China Heavy Truck) in Chinese and “SINOTRUK” in English is widely recognized in China and some overseas markets. Our four truck series have achieved widespread reputation among end users in China. We intend to continue to strengthen our 中國重汽 (China Heavy Truck) and SINOTRUK brand name through the following methods:

- We plan to continue to increase our promotion and advertising efforts through broadcast and print media, billboard postings and trade shows to further raise the awareness and profile of our products, brand and corporate image.
- We plan to continue to cultivate customer loyalty through continuous improvement of our product quality and customer services and establishment of more 4S centers and exclusive dealerships nationwide.
- We aim to increase the public awareness of our environmentally friendly manufacturing process as we continue to improve the environmental aspects of our heavy truck production.

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Our Principal Products

Our principal products are heavy trucks, including cargo trucks, chassis and semi-tractor trucks. We also manufacture related key parts and components, such as cabins, diesel engines, truck frames and axles. For 2004, 2005, 2006 and the nine months ended September 30, 2007, we produced 43,955 units, 42,066 units, 53,526 units and 70,248 units of heavy trucks, respectively, and sold 43,216 units, 35,378 units, 51,573 units and 63,274 units of heavy trucks, respectively.

Heavy Trucks

We offer a wide range of truck products to our customers. As of the Latest Practicable Date, we had developed four series of trucks:

- HOWO (豪濼);
- Sitaier King (斯太爾王);
- Sitaier (斯太爾); and
- Huanghe (黃河).

Our four product series offer an aggregate of more than 2,000 models of heavy trucks as classified under NDRC rules. Most of our models have GVW ranging from 14 to 32 tonnes for cargo trucks and truck chassis and trailing capacity ranging from 25 to 40 tonnes for semi-tractor trucks. We also manufacture lighter trucks within our Huanghe series with a GVW of 11 to 14 tonnes for cargo trucks and truck chassis. In addition, our trucks and chassis may be refitted into other types of truck vehicles such as tippers, oil-tank trucks, fire engines and cement mixers. Our products are widely used in the infrastructure, construction, container transportation, logistics, mining, steel and chemical industries.

We endeavor to improve the performance and functionality of our trucks as our customers are becoming increasingly focused on safety features, environmental friendliness and ergonomic design of our products. Our trucks are known for their high utility, reliability, adaptability, fuel economy and safety.

The following table illustrates our major subseries within our four product series as of the Latest Practicable Date:

HOWO	Sitaier King	Sitaier	Huanghe
HOWO-7 HOWO-8	Sitaier-King	Sitaier Jin Wangzi (金王子) Haojun (豪駿) Huanghe Wangzi	Huanghe Shaoshuai (黃河少帥)

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The following table sets forth units sold information of our major truck products for the periods indicated:

	Units sold			
	2004	2005	2006	Nine months ended September 30, 2007
Cargo trucks and chassis	21,289	21,266	33,797	34,341
11 tonnes<GVW≤14 tonnes	78	82	260	215
14 tonnes<GVW≤19 tonnes	2,110	1,163	1,257	610
19 tonnes<GVW≤26 tonnes	4,386	14,101	22,471	21,238
26 tonnes<GVW≤32 tonnes	11,564	5,138	9,495	12,011
32 tonnes<GVW	3,151	782	314	267
Semi-tractor trucks	21,927	14,112	17,776	28,933
12 tonnes<trailing capacity≤25 tonnes ...	1,743	3,769	6,589	4,592
25 tonnes<trailing capacity≤40 tonnes ...	19,960	10,227	11,169	24,313
40 tonnes<trailing capacity	224	116	18	28
Total	<u><u>43,216</u></u>	<u><u>35,378</u></u>	<u><u>51,573</u></u>	<u><u>63,274</u></u>

The following table sets forth units sold information of our four truck series for the periods indicated:

	Units sold			
	2004	2005	2006	Nine months ended September 30, 2007
HOWO	13	7,344	21,395	39,932
Cargo trucks and chassis	7	2,382	11,575	22,399
Semi-tractor trucks	6	4,962	9,820	17,533
Sitaier King	27,083	18,501	19,344	12,075
Cargo trucks and chassis	12,609	12,584	14,473	9,291
Semi-tractor trucks	14,474	5,917	4,871	2,784
Sitaier	16,120	9,422	10,245	10,546
Cargo trucks and chassis	8,673	6,189	7,163	2,201
Semi-tractor trucks	7,447	3,233	3,082	8,345
Huanghe	—	111	589	721
Cargo trucks and chassis	—	111	586	490
Semi-tractor trucks	—	—	3	231
Total	<u><u>43,216</u></u>	<u><u>35,378</u></u>	<u><u>51,573</u></u>	<u><u>63,274</u></u>

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Sales volume of each truck series during the Track Record Period generally fluctuated in accordance with the general market conditions in China. The sales volumes of Sitaier King and Sitaier decreased significantly in 2005 due to the industry-wide slow down in 2005 but then increased in 2006 due to the ensuing recovery and further increased in the nine months ended September 30, 2007 due to the generally favourable market conditions in China. HOWO series was officially launched in 2005 but we sold 13 units during its trial launch in 2004.

HOWO Series. The HOWO series is our latest product line and was officially introduced to the market in 2005. The HOWO series was designed to target the high-end market, offering more powerful engines, additional safety features, more ergonomic design, and more comfortable driving environment while remaining cost competitive. In April 2006, the Ministry of Communications of the PRC awarded eight of our HOWO models top 24 models of cargo vehicle in China as measured by performance, safety and environmental friendliness. In August 2006, our HOWO series was voted one of the top heavy truck brands with the highest level of customer satisfaction by the China Market and Brand User Satisfaction Polling Organizational Committee. The following table illustrates selected models and the major characteristics of our HOWO products:

HOWO Characteristics



HOWO/6x4
semi-tractor truck



HOWO/8x4 oil tanker



HOWO/8x4 cement mixer



HOWO/6x4 tipper



HOWO/6x4 cargo truck



HOWO/8x4 cargo truck

Characteristics

Range of specifications

Number of basic models	669
Engine types	In-line 6-cylinder diesel engine
Engine power.	266-410 horsepower
Gearbox.	Manual 6-12 speeds
GVW for cargo trucks and truck chassis	16-42 tonnes
Trailing capacity for semi-tractor trucks.	30-40 tonnes
Maximum speed	102 km/h

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Our HOWO trucks have adopted many leading technologies in the automotive and heavy truck industry, including controller area network systems, automatic malfunction diagnostic systems, and full suspension shock absorber cabin design. Our proprietary full suspension shock absorber feature provides a more comfortable cabin environment and alleviates driver fatigue. We believe our HOWO series leads the PRC heavy truck market in terms of comfort and anti-fatigue features. Other optional features offered by our HOWO products include cruise control, power window, refrigerator, air-conditioning and heating system, adjustable steering wheel, power-heated seat and double-decker bunk bed.

We officially launched our HOWO series in 2005. Our HOWO trucks are equipped with China II or China III Engines and ABS systems. Of our 669 models of HOWO products, 526 are subject to the China II emission standards while 143 are subject to the China III emission standards. In 2004, we sold 13 units during our trial launch. For 2005, 2006 and the nine months ended September 30, 2007, we sold 7,344 units, 21,395 units and 39,932 units of HOWO trucks, respectively. The following table illustrates the price range and average selling price of our HOWO trucks:

<u>Year/Period</u>	<u>Price range</u>	<u>Average selling price</u>
	(Rmb in thousands)	
2005	143.4 - 307.1	276.9
2006	148.5 - 307.5	252.1
Nine months ended September 30, 2007	121.7 - 373.7	249.4

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Sitaier King Series. We developed our Sitaier King series based on our Sitaier prototype through technology innovations. Our Sitaier King series was designed to target the mid- to high-end market by offering additional comfort features with modern aerodynamic technology and ergonomic design. Our Sitaier King series was well received by the market after its official introduction in 2002. In January 2006, our Sitaier King series was rated the most influential heavy truck brand in China for 2005 in terms of, among others, product quality, service and brand recognition, by the China top 10 Best-Brand Polling Organizational Committee. The following table illustrates selected models and the major characteristics of our Sitaier King products:

Sitaier King Characteristics



Sitaier King /4x2 semi-tractor truck



Sitaier King /6x4 cargo truck



Sitaier King /6x4 tipper



Sitaier King /6x4 oil tanker



Sitaier King /8x4 cargo truck



Sitaier King /6x4 cargo truck



Sitaier King /6x4 cement mixer and transport

Characteristics

Range of specifications

Number of basic models	524
Engine types	In-line 6-cylinder diesel engine
Engine power	266-410 horsepower
Gearbox	Manual 6-9 speeds
GVW for cargo trucks and truck chassis	16-42 tonnes
Trailing capacity for semi-tractor trucks	30-40 tonnes
Maximum speed	93 km/h

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Our Sitaier King trucks are equipped with air-conditioning and heating system, adjustable steering wheel and audio system. Other optional features include air suspension seats and double-decker bunk bed. Of our 524 models of Sitaier King products, 469 are subject to the China II emission standards while 55 are subject to the China III emission standards. For 2004, 2005, 2006 and the nine months ended September 30, 2007, we sold 27,083 units, 18,501 units, 19,344 units and 12,075 units of Sitaier King trucks, respectively. The following table illustrates the price range and average selling price of our Sitaier King trucks:

Year/Period	Price range	Average selling price
	(Rmb in thousands)	
2004	139.1 - 332.4	204.1
2005	119.7 - 316.1	210.6
2006	118.8 - 284.7	212.0
Nine months ended September 30, 2007	108.2 - 299.6	210.7

Sitaier Series. We introduced Sitaier series based on the Steyr technologies we purchased from Steyr of Austria in the 1980s. We have developed three subseries under our Sitaier series: Sitaier, Jin Wangzi and Haojun. The Sitaier series has become our mainstream product in the PRC market. The following table illustrates selected models and the major characteristics of our Sitaier series:

Sitaier Characteristics



Sitaier/6x4 cargo truck



Sitaier/4x2 semi-tractor truck



Sitaier/6x4 tipper



Haojun/6x4 oil tanker



Sitaier/6x4 cement mixer and transport



Sitaier/8x4 cargo truck



Sitaier/8x4 cargo truck

Characteristics

Number of basic models
 Engine types
 Engine power
 Gearbox
 GVW for cargo trucks and truck chassis
 Trailing capacity for semi-tractor trucks
 Maximum speed

Range of specifications

701
 In-line 6-cylinder diesel engine
 266-410 horsepower
 Manual 6-9 speeds
 16-42 tonnes
 30-40 tonnes
 93 km/h

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Our Sitaier trucks are equipped with power steering and audio system. Of our 701 models of Sitaier products, 613 are subject to the China II emission standards while 88 are subject to the China III emission standards. For 2004, 2005, 2006 and the nine months ended September 30, 2007, we sold 16,120 units, 9,422 units, 10,245 units and 10,546 units, respectively, of Sitaier heavy trucks. The following table illustrates the price range and average selling price of our Sitaier trucks:

<u>Year/Period</u>	<u>Price range</u>	<u>Average selling price</u>
	(Rmb in thousands)	
2004	133.9 - 309.6	191.7
2005	132.5 - 288.5	191.2
2006	127.4 - 326.1	195.4
Nine months ended September 30, 2007	97.7 - 366.3	201.4

Our Sitaier subseries was introduced to the market in late 1980s. For 2004, 2005, 2006 and the nine months ended September 30, 2007, we sold 15,084 units, 7,939 units, 3,747 units and 1,718 units of Sitaier subseries trucks.

We launched our Jin Wangzi subseries in 2006. Our Jin Wangzi subseries is a more advanced version of its predecessor, the Huanghe Wangzi subseries, which was officially launched in 2004. Our Jin Wangzi trucks adopted the chassis technology from Steyr and the modern cabin design from MAN of Germany. For 2004, 2005, 2006 and the nine months ended September 30, 2007, we sold 1,036 units, 1,483 units, 4,804 units and 6,722 units, respectively, of Jin Wangzi trucks and its predecessor Huanghe Wangzi subseries.

We officially launched the Haojun subseries in 2006, and it has become widely used for refitting into specialty vehicles. For 2006 and the nine months ended September 30, 2007, we sold 1,694 units and 2,106 units, respectively of Haojun trucks.

Huanghe Series. The Huanghe series is the first product series that one of our predecessors Jinan Auto Manufacturing Factory developed in the 1960s based on our proprietary technologies. The Huanghe series offers lighter trucks with GVW between 11 to 16 tonnes targeting customers with relatively high level of price sensitivity. We have developed the Huanghe Shaoshuai subseries under our Huanghe series. The following table illustrates selected models and the major characteristics of our Huanghe series products:

Huanghe Characteristics



Huanghe Shaoshuai/4x2
cargo truck



Huanghe Shaoshuai/4x2
semi-tractor truck



Huanghe Shaoshuai/4x2
tipper

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Characteristics	Range of specifications
Number of basic models	136
Engine types	In-line 4/6-cylinder diesel engine
Engine power	140-260 horsepower
Gearbox	Manual 5-6 speeds
GVW for cargo trucks and truck chassis	11-16 tonnes
Trailing capacity for semi-tractor trucks	25-29 tonnes
Maximum speed	98 km/h

Of our 136 models of Huanghe products, 126 are subject to the China II emission standards while 10 are subject to the China III emission standards. For 2005, 2006 and the nine months ended September 30, 2007, we sold 111 units, 589 units and 721 units, respectively, of Huanghe trucks. The following table illustrates the price range and average selling price of our Huanghe trucks:

Year/Period	Price range	Average selling price
	(Rmb in thousands)	
2005	103.9 - 279.5	117.0
2006	94.0 - 286.3	126.7
Nine months ended September 30, 2007	94.9 - 167.9	126.3

Prior to 2005, our Huanghe series products manufactured and sold by our Parent Company were primarily specialty vehicles designed for refitting purposes.

The Huanghe-Shaoshuai subseries was officially introduced to the market in 2005. Our Huanghe-Shaoshuai trucks feature MAN-designed driver cabins. Other optional features offered by our Huanghe-Shaoshuai trucks include ABS.

Parts and Components

We produce most key truck parts and components internally, including cabins, engines, axles and truck frames. We also procure from third party suppliers certain parts and components, such as gearboxes and steering gears. Currently, our self-produced parts and components are primarily for internal needs, with the balance used in after-sales services or sold to third parties. We anticipate an increasing demand for our parts and components from after-sales services as our heavy truck sales volume increases.

For information relating to our procurement and outsourcing of parts and components, see the section entitled “— Supplies” below.

Cabins. We manufacture four cabin series, HOWO cabins, Sitaier cabins, Sitaier King cabins and Huanghe cabins, respectively, for our four truck series. All our cabin series are cab-over type to maximize the chassis and loading spaces with fixed bumper-to-bumper length. We have designed Huanghe cabins, Sitaier cabins and Sitaier King cabins based on Steyr and MAN technologies, and developed HOWO cabins based on our own design to cater to the requirements of the PRC markets and regional preferences.

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Engines. We have developed our engines based on the Steyr technology. After many years of research and development, we believe our engines are among the best in the PRC truck engine industry as measured by quality and fuel efficiency. Currently, we produce engines with a displacement of 9.726 liters, which meet the China II and China III emission standards. We believe that the implementation of mandatory compliance with China III emission standards will not have a material adverse financial impact on our operations. Firstly, we expect that the increased production costs from such compliance can be partially offset by increasing the selling prices. Secondly, as we have long prepared ourselves for such compliance through proactive research and development efforts in this area, we currently have a large number of heavy truck models that meet China III standards, which should help us gain more market share in China. Lastly, since China III has similar standards as those under Euro III, compliance with China III can further benefit our export, which has been growing rapidly in recent years.

We manufacture engines through Sinotruk Jinan Power, which has production facilities in Jinan as well as Hangzhou. Most of our engine models are powerful high-speed diesel engines that can be used in a wide range of vehicles, such as trucks, buses and construction vehicles.

The table below sets out the breakdown of volume of engines used for internal production, sold to related parties and sold to third parties during the Track Record Period.

	Year ended December 31,			Nine months ended September 30,
	2004	2005	2006	2007
Used for internal production	2,172	4,022	50,923	68,259
Sold to related parties	147	209	3,239	6,204
Sold to third parties	<u>17,743</u>	<u>17,144</u>	<u>5,598</u>	<u>4,458</u>
Total	<u>20,062</u>	<u>21,375</u>	<u>59,760</u>	<u>78,921</u>

Currently, the engines we produce are primarily used internally for our truck production. As of September 30, 2007, our engine production capacity was approximately 100,000 engines per year. The engines produced in excess of our internal production needs are sold to related parties and third parties. We plan to continue to expand our engine production and increase our external engine sales.

We primarily manufacture WD615 series diesel engines with over 350 models as classified under the NDRC rules. Our WD615 engines are water-cooled, in-line, 6-cylinder, 4-stroke, direct-injection, turbo-charging, high-speed diesel engines with a displacement of 9.726 liters. The standard speed of our WD615 engines ranges from 1,000 rpm to 2,600 rpm and the output ranges from 196 kW to 302 kW.

The following are some special features of our WD615 engines:

- Fuel economy: the minimum fuel consumption of our WD615 engines is 193g/kWh;
- Low emission: our WD615 engines comply with China II and China III Standards;
- High torque back-up: the torque back-up (the percentage between the maximum and standard torque) of our WD615 engines is 32%;

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- Low temperature ignition: our WD615 engines can start at -10°C without the low temperature ignition device and can start at -40°C with the device; and
- High altitude performance: less than 5.4% power loss at 3,800 meters above sea level.

We started to improve the existing fuel injection system, inhaust and exhaust system and electronic control system of our engines in 2006. We are technologically prepared for mass-production of China IV engines when market conditions are suitable for its launch, and we are also technologically prepared for mass-production of engines with a displacement of 12 liters.

Truck Axles. We produce three principal series of heavy truck axles:

- double deceleration driving axles based on the Steyr technology;
- single deceleration driving axles based on the ArvinMeritor, Inc. technology; and
- HOWO single deceleration driving axles based on our proprietary technology.

Our double deceleration driving axle series is based on the Steyr technology imported in the 1980s. Over the years, we have improved its power transmission and its adaptability to road conditions, especially for trucks working on construction and mining sites.

Our single deceleration driving axle series is based on the ArvinMeritor, Inc. technology from the United States. We have improved its adaptability to the traffic conditions in China and made it better suited for trucks used for long distance transportation.

Our HOWO single deceleration driving axle series is based on our proprietary technology. We completed our development and engineering of the HOWO single deceleration driving axle series in 2004. The HOWO axles are simple in structure and reliable in functionality.

All our heavy trucks use our own axles.

Other Related Businesses

In addition to the principal businesses described above, we are also engaged in other related businesses, including providing financial services to our subsidiaries and providing design and research services to our associates.

According to the General Principles of Loans promulgated by the PBOC in 1996, any loans between companies in China must be transacted through an authorized financial institution. Thus, Sinotruk Finance Company was established with the approval from relevant government authorities to function as an authorized non-bank financial institution specifically to facilitate our internal financing transactions and provide financial services for Sinotruk Group, including deposit taking, intra-group funding, and bank note discounting. Following our listing, Sinotruk Finance Company will provide financial services to us only. Sinotruk Finance Company has not been involved nor plan to involve in any matters relating to our equity capital transactions.

Our PRC legal counsel, DeHeng Law Offices, has confirmed that Sinotruk Finance Company has obtained all the relevant permits and licenses to provide financial services, and has been in compliance with all the relevant rules and regulations concerning financial businesses in the PRC.

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Our Manufacturing Process

We believe our production techniques and equipment represent the leading technology currently utilized in China for the manufacturing of heavy truck and, in certain cases, the imported equipment we use represents the highest level of technology internationally. Our manufacturing equipment and techniques enhance the quality and reliability of our products. Our selected equipment includes:

- compartment welding robot machines imported from ABB Company of Sweden;
- large-scale press machines produced by Kojima of Japan;
- main frame punching machines imported from Soenen Company of Belgium;
- motor crankshaft automatic line comprising 15 horizontal centers of the HPC800HP model produced by Cincinnati Company of United States;
- 13 processing centres and seven dedicated modular machine tools imported from Mitsubishi Company in Japan for the production of cylinder covers;
- motor component automatic production line comprising a cluster of CNC machines such as German Naxos crankshaft grinding machines, Schenck fully automatic balancing machines and Aichelin controlled atmosphere nitrogenation lines;
- founding production line comprising essential equipment such as static pressure moulding and core making imported from HWS Company of Germany;
- spline cold rolling mill imported from GROB Company in Switzerland for the production of transmission shafts;
- sets of Gleason equipment imported from Gleason Corporation in the United States;
- gear shaving grinder imported from Gleason-Hurth Company in Germany;
- road simulation test bench equipment imported from INSTRON Company in Germany; and
- 16-tonne hot-press forging, a forging production line comprising 6,300-tonne main machines.

We manufacture key parts and components on various different production lines. We carefully monitor each stage of our manufacturing process both by quality control engineers and through specialized testing equipment to ensure that our final product achieves the highest possible quality standard.

The major steps of our truck manufacturing process are briefly described below:

- *processing and assembly of key parts and components*

Unfinished parts and components, both self-manufactured and outsourced, are processed according to their respective specifications for assembling into a complete key part, such as cabin, engine or axle.

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- ***assembly of truck chassis***

Parts and components for truck frames are processed on our general assembly lines for assembling into complete truck frames. Other parts, including cabins, engines, axles, gearboxes, steering boxes, tires and electrical systems, are installed in the truck frame to form a complete truck chassis.

- ***inspection and testing***

Our truck chassis and parts are subject to automated and manual inspections and testings. We inspect and test all our truck chassis and parts and components in compliance with the relevant technical standards issued by the PRC government.

- ***warehousing***

Once offloaded from the general assembly lines, the trucks and truck chassis are sent to a warehouse before delivery to our customers or to refitting companies for body refitting.

The following diagram illustrates the overall assembly process for our heavy trucks:



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In addition to the general assembly for complete trucks, our manufacturing processes for parts and components involve design, research and development, prototyping, testing, mass-production, quality control and inspection, packaging and delivery.

The details of our production lead time are as follows:

Key parts	Time period
• Engines	60 days
• Axles	30 days
• Driver cabin	20 days
General assembly and body fitting	Time period
• Semi-tractor trucks	7-10 days
• Chassis for cargo trucks	7-10 days
• Body fitting for cargo truck	4-5 days
• Chassis for tippers	7-10 days
• Body fitting for tippers	Around 20 days
• Chassis for cement mixers	7-10 days
• Body fitting for cement mixers	Variable as it is commissioned to refitting companies

Our production lead time also includes the time for delivering trucks to customers before we recognize sales, which typically takes five to 20 days.

Quality Control

We maintain strict quality control over the research and development, engineering and production of our trucks and parts and components. Our production quality management system includes automated and manual quality inspections and spot checks at various points during the production process, commencing with raw materials and outsourced parts and components. We select and control the sources of our raw materials and parts and components that we do not produce ourselves. We also maintain a list of preferred suppliers for our raw materials and outsourced parts and components. In addition, we inspect raw materials and outsourced parts and components upon arrival. For additional information on our raw materials, outsourced parts and components and suppliers, see “— Supplies” below.

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Our independent quality control departments within each operating subsidiary are designed to monitor the quality of our products at the different stages of their production. We also designate management level personnel to conduct unannounced site visits and spot checks during the production process. We conduct testing and inspections internally during each stage of our assemblies of parts and components. In addition, we conduct various quality inspections during our general assembly:

- quality inspection of all parts and components before loading onto the general assembly lines;
- automated testing by quality control equipment at various check points;
- inspections by quality control engineers at various check points; and
- complete vehicle inspection and testing upon offloading from the general assembly lines.

Before it is released to the market, each of our trucks must pass our comprehensive functional testing, including environmental and safety testing.

Most of our manufacturing subsidiaries are certified under the ISO quality system. The table below sets forth the quality certificates we have received:

<u>Recipient</u>	<u>Certificate</u>	<u>Validity period</u>
Sinotruk Jinan Truck Company	ISO9001:2000	Oct. 2007-2010
Sinotruk Hangzhou Engine	ISO/TS16949:2002	June 2005-2008
Sinotruk Chongqing Fuel System	ISO/TS16949:2002	June 2005-2008
Sinotruk Jinan Commercial Truck Company	ISO9001:2000	Nov. 2005-2008
Sinotruk Jinan Axle & Transmission Company	ISO/TS16949:2002	Sep. 2006-2009

Sales and Customers

Our customers are purchasers of our products for resale or for their own uses, and they include third-party dealers, refitting companies and a small percentage of end-users. We sell substantially all of our trucks through third-party dealers, which primarily consist of general dealers and 4S centers. We also sell our truck chassis to refitting companies, which purchase our truck chassis, refit them and sell such refitted trucks to end-users. We sell a limited amount of trucks directly to end-users, primarily large corporations and equipment procurers for large national projects. In addition, we sell our products overseas through approximately 20 export agents and dealers. End-users of our trucks can be broadly divided into the following categories:

- infrastructure developers;
- construction companies;
- container transportation companies;
- logistics service providers;
- mining companies;
- steel companies;

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- chemical companies; and
- users of specialty vehicles, such as tippers, oil-tank trucks, fire engines and cement mixers.

Sales to our five largest customers represented approximately 12.9%, 11.0%, 18.6% and 20.0% of our revenues for 2004, 2005, 2006 and the nine months ended September 30, 2007, respectively. The largest customer accounted for approximately 3.1%, 4.4%, 9.2% and 9.0% of our revenues during the respective periods. All of our dealers are independent third parties and transact business with us on arm's-length basis.

Our Parent Company has a 15% equity ownership in Shandong Dongyue Specialty Vehicles Manufacturing Co., Ltd., which was one of our top five customers for 2004, 2005, 2006 and the nine months ended September 30, 2007. Except for this ownership interest, none of the Directors, their respective associates or, so far as the Directors are aware, any of our Shareholders who owns more than 5% of our issued share capital immediately upon completion of the Global Offering has any interest in any of our top five customers for 2004, 2005, 2006 and the nine months ended September 30, 2007.

Domestic sales network

We maintain an extensive sales network in China. As of September 30, 2007, our domestic sales network comprised approximately 780 third party companies that had established sales relationship with us, of which 101 were 4S centers that sell our products and provide services to our products exclusively, 35 were exclusive dealers that sell our products exclusively, and approximately 650 were general dealers or sales partners that have entered into framework agreement with us to potentially become our general dealers in the future. Our exclusive dealers sell our truck products exclusively and our general dealers are not obligated to sell our truck products exclusively, although we encourage them to do so. Compared to exclusive dealers and general dealers, our 4S centers are contractual dealers established based on our uniform standard, and provide a broader range of services, including truck sales, parts supplies, information gathering and other after-sales services. In addition, our 4S centers are required under their contracts with us to sell our heavy trucks on an exclusive basis and may not sell heavy trucks made by other manufacturers. We have also established business relationships with over 200 contractual refitting companies nationwide. Our relationship with refitting companies allows us to reach more niche markets of specialty vehicles in different regions of China. Our domestic sales network covers various cities in each province and autonomous region in China, with a well-established presence in Beijing, Shanghai, Tianjin, Chongqing and each provincial capital city.

We select our dealers mainly based on their reputation, sale network coverage and size of work force in their respective local market. Our selection criteria include:

- understanding of local markets and ability to market locally;
- sales force;
- shop locations;
- after-sales service capabilities; and
- shop facilities and equipment.

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We enter into a distribution agreement with each of our dealers. The distribution agreements with our general dealers generally have a term ranging from three to six years and the distribution agreements with our 4S centers generally have a term of ten years. These agreements specify, among other things, the geographic distribution and sales areas, sales targets, minimum sales prices, marketing efforts, settlement terms and commission rates. Before the expiration of the existing distribution agreements, we evaluate the dealers' performance during the year and will not renew our agreements with dealers that receive unsatisfactory reviews. Pursuant to the distribution agreements, we offer our dealers various commissions and bonuses linked to their historical performance. We also regularly provide staff and marketing training to our domestic dealers on an annual basis, supplemented by special training sessions on new products, market updates and important technological advancements. Dealers can elect to terminate the distribution agreements upon their expiration.

As of September 30, 2007, we had 66 sales offices throughout China to manage our 4S centers, dealers and sales partners. Our sales branch offices regularly evaluate the performance of dealers, coordinate sales and after-sales services, collect information on industry developments, conduct market surveys and analysis, and serve as communication channels between the local dealers and us. Our sales offices are not engaged in direct sales of our products.

Overseas sales network

We sell products to approximately 30 countries and regions. Our current international marketing strategy focuses on emerging markets in Southeast Asia, the Middle East, the Russia, Africa, Central and South America and Central Asia. We intend to gradually expand our overseas sales to other regions in the world. As of September 30, 2007, we distribute our products outside China through approximately 20 export agents and dealers. Also, we are planning to build three CKD facilities overseas, through cooperation with local heavy truck manufacturers. Our overseas sales increased from 216 units in 2004 to 3,817 units in 2005, 5,869 units in 2006 and 10,013 units for the nine months ended September 30, 2007. Our products sold to the overseas markets are serviced by approximately 46 third-party service stations. Our overseas sales are managed by our subsidiaries, Sinotruk Shandong Import & Export Company, Sinotruk Jinan Ganghua Import & Export Company, Sinotruk Hong Kong International Investment Company and Sinotruk Jinan Truck Company. For 2004, 2005, 2006 and the nine months ended September 30, 2007, revenue generated from products sold overseas amounted to approximately Rmb 96.5 million, Rmb 1,051.9 million, Rmb 1,562.7 million and Rmb 2,691.6 million, or approximately 0.9%, 11.5%, 12.2% and 16.7%, respectively, of our total revenue of the respective periods.

During the Track Record Period, we made a portion of our export sales to dealers in Iran and Sudan. For 2004, 2005 and 2006 and the nine months ended September 30, 2007, truck sales to these two countries accounted for approximately 0%, 7.7%, 8.7% and 7.4% of our total sales, respectively. These exported trucks, like our trucks in general, contained no content of U.S. origin or only de minimis amounts of such U.S. content. No U.S. employees or agents on our behalf are involved in supplying such trucks and related services and technology to Iran and Sudan. We do not expect significant increases in our export sales to Iran and Sudan in the near future, and our aggregate annual export sales to Iran and Sudan will not exceed 10% of our total annual sales in the foreseeable future. We do not make sales to companies active in the petroleum or defence industries in those countries.

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As of the Latest Practicable Date, we had never had any assets located in either Iran or Sudan, except for accounts receivable from Iranian and Sudanese customers in connection with the export sales described above. We will institute appropriate internal controls so that the use of proceeds of the Global Offering by us or our affiliates will not cause any U.S. person, as defined in U.S. economic sanctions, to violate U.S. economic sanctions. You may find additional information in “Appendix VII — Statutory and General Information — Other information — Background on OFAC sanctions” in this prospectus.

Our overseas dealers provide services ranging from sales, market development, information collection to after-sales service for our products. We generally take into consideration the following criteria in selecting our overseas dealers:

- qualification to operate automobile dealer business, reputation within the industry and within the country of operation;
- ability to conform with our uniform sales outlet image and layout standard;
- ability to meet sales targets;
- marketing abilities to promote our products and ability to gather market information; and
- ability to provide after-sales services.

We enter into distribution agreements with our overseas dealers. Our overseas distribution agreements are usually of a term of one to two years. Pursuant to our distribution agreements, our overseas dealers are subject to mandatory annual sales targets. We may terminate any overseas dealership if the dealer fails to achieve its sales target in any year.

Sales and settlement arrangements and payment terms

Generally, our trucks are made to order. We begin assembly of our trucks upon receipt of customer orders, which include orders from third-party dealers, refitting companies and end-users. Our customers are typically required to pay an advance deposit of Rmb 10,000 to Rmb 20,000 per truck at the time of their purchase order. Our sales to dealers and our sales to other customers are generally subject to the same sales policies governing return, exchange or other sales-related issues. We do not deliver trucks to any dealers on a consignment basis. Our truck dealers are required to pay for their orders prior to delivery either in cash or immediately available funds or bank notes with a tenure of usually three to six months, which represents the credit term granted to our customers who pay by bank notes. We generally do not extend credit in our truck sales, except for sales in connection with large quantity purchase orders from end-users who have established credit-worthiness.

On some occasions, in order to shorten the delivery time, some of our truck products are sent to and stored at our service centers closest to the dealers placing the purchase orders before payment. Specialty vehicles or trucks with special features typically require refitting or modifications at our contractors’ facilities. We usually ship our chassis to the refitting companies for modification or installation of additional parts and components for these special orders.

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A small percentage of our truck sales are made pursuant to tripartite financing arrangements among a small number of our dealers, banks and us. Banks typically will enter into a tripartite financing agreement with dealers who have demonstrated good credit history. Pursuant to such tripartite agreements, the dealers typically are required to deposit certain percentage (typically 30%) of the total purchase price in the relevant bank and the relevant bank will typically agree to finance the purchase of trucks on behalf of the dealer in consideration of our agreeing to buy back such trucks from the bank, should the dealer fail to repay the full amount to the bank within the stipulated timeframe. Such financing arrangements are beneficial to us, bank and the truck dealers in the following ways: (i) our credit risk exposure is reduced by its control of the goods until they are fully paid; (ii) we receive more funds in the form of banks notes, which improves its liquidity as bank notes can be used to pay its suppliers; (iii) truck dealers can leverage banks' credit to purchase more trucks to meet the market demand and make more profits; and (iv) banks receive fees for issuing bank notes; and its risk of not receiving the full funds is minimized through its mortgage interest in the trucks and our guarantee. The directors believe that such financing agreements are in line with the common market practice for vehicle sales. Our PRC legal advisers, DeHeng Law Offices, have confirmed that such tripartite arrangements are legal and valid under the relevant PRC laws and regulations.

Under our accounting policy, advance payments received by us under such tripartite financing agreements will not be recognized as sales until the trucks are delivered to the dealers and the dealers confirm the receipt of the trucks, at which point the legal title or the possession is transferred and we no longer retain any control over, and have responsibility towards, these trucks, other than replacement of minor defected parts. The financing arrangement of our trucks does not affect our revenue recognition, and sales revenues are recognized only when our trucks are delivered to the truck dealer upon the bank's release of trucks. The bank notes received are initially recorded as advances from customers until the trucks are delivered. During the Track Record Period, we had made no buybacks under the tripartite financing arrangements. In the opinion of the Directors, the financial information in the Accountants' Report set forth in Appendix I to this prospectus fully complies with such accounting policy in all material respects. For 2004, 2005 and 2006 and the nine months ended September 30, 2007, approximately 20, 6, 5 and 10 dealers were involved in such financing arrangements, and approximately 0.9%, 2.2%, 1.2% and 1.0% of our total revenue were generated under sales from such arrangements.

For our parts and components products, our dealers, 4S centers and service stations normally pay in cash or by bank remittance, and we may grant credit to customers who have a long-term relationship with us or possess strong financial credit-worthiness. However, the credit term generally is no more than six months.

Pricing policy

We determine and adjust our product selling prices from time to time on the basis of market supply and demand.

In determining our prices, we take into account our costs of production, pricing of comparable products in the market, prevailing market conditions for our products and the positioning of our products in the relevant market.

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Marketing

We market our products through a mix of marketing activities, including print and broadcast media, point-of-sale support materials, billboards and the Internet. We employ advertising companies in China, which are responsible for all aspects of our advertisements. For 2004, 2005, 2006 and the nine months ended September 30, 2007, we spent an aggregate of Rmb 40.1 million, Rmb 53.1 million, Rmb 90.9 million and Rmb 88.6 million, respectively, on advertising and marketing campaigns designed to increase sales of our products and to enhance our brand awareness.

We also promote and market our products through our sales network and our after-sales services network throughout China. We use the information we collect through our “one through-line” MIS system to identify customer demographics, determine which products and options are most in demand and optimize inventory control. Our “one through-line” MIS system has also provided us with the ability to track customer preferences in various regions and to adjust our production and distribution efforts accordingly.

To introduce our products to a broader group of customers and further expand our customer base, we participate in trade shows and exhibitions, including major heavy truck-related exhibitions and other automobile-related exhibitions in major cities of China. We also organize promotional events with our dealers to market our new products and enhance our brand recognition.

After-Sales Services

Our trucks are serviced by a national after-sales network operated by independent third parties. As of September 30, 2007, we had approximately 700 contracted after-sales service stations. Our after-sales services include provision of repair services and sale of spare parts. We closely monitor customer reports of defects or problems with our products. In an industry that is highly competitive, we endeavor to provide quality service under our service motto “*qinren*” (親人), or “to treat our customers like family members.” We require our authorized service stations to act under this motto. They are not only required to provide customary services such as repair and maintenance, but also communicate with our customers to understand how our products can be improved, what aspects of other models are preferred and how problems can be rectified, and to collect market intelligence in general.

As part of our after-sales services, we provide standard warranties to our end-users. Our warranty is free of charge for six to 18 months depending on the type of vehicles and engines in question. During the warranty period, we pay our contracted service stations for parts and labor covered by the warranty on the basis of actual warranty costs incurred. Beyond our warranty period, customers have to pay for all parts and labor. For 2004, 2005, 2006 and the nine months ended September 30, 2007, our total warranty costs were approximately Rmb 128.0 million, Rmb 89.9 million, Rmb 169.9 million and Rmb 197.1 million, respectively.

We also utilize our one-through-line MIS system and a 24-hour toll-free telephone service hot line in China to timely respond to customer inquiries and complaints, provide assistance for repairs or replacements, track product defect occurrence and pattern and collect market intelligence to further improve our products. Our extensive service network in China enables us to resolve most of the

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routine customer complaints within 24 hours in most of the geographic areas in China and most major problems within three days. To improve our customer services on a continuous basis, we regularly evaluate the performance of our contracted service stations on the basis of their customer service capabilities based on site visits. We believe that our dedication to providing timely and quality after-sales services to our customers has contributed to our customer loyalty.

Supplies

Our principal raw materials include steel, such as steel sheets, pig iron, coils and profiled steel, and, to a lesser extent, rubber, paint and a variety of other materials. We purchase our principal raw materials from third-party suppliers. We also procure from third-party suppliers some key parts and components, such as gearboxes, steering gears and a few other generic components to satisfy our current needs. To ensure our quality requirements, we generally select key suppliers with qualification certificates issued by the relevant government authorities or industry associations. Our selection criteria include the candidates' technical qualifications, manufacturing facilities, production capacity, pricing, product quality and available services. To ensure competitive pricing for our procured raw materials and parts and components, we typically use a bidding process to select suppliers from our approved list of suppliers.

We attempt to limit our supplier risk by purchasing raw materials and parts and components from more than one single supplier. We are able to do so for a majority of our principal raw materials and some of our parts and components. We purchase gearboxes from Shaanxi Fast Gear Co., Ltd. and Chongqing Qijiang Gear Transmission Co., Ltd. and steering gears solely from the Jinan subsidiary of ZF of Germany. For further information on the key parts and components that we manufacture ourselves, see the section entitled “— Our Principal Products — Parts and Components” above.

Purchases from our five largest suppliers accounted for approximately 42.7%, 29.2%, 15.6% and 13.8%, respectively, of our total purchases for 2004, 2005, 2006 and the nine months ended September 30, 2007. For 2004 and 2005, our single largest engine supplier prior to January 1, 2006, Weichai Power, accounted for approximately 86.2% and 64.6%, respectively, of our purchases of engines. Weichai Power has since January 1, 2006 ceased to be our supplier. For information relating to the prior ownership interest of our Parent Company in Weichai Power, see “Appendix VII — Statutory and General Information — Further Information About Us — Corporate history and reorganization” in this prospectus.

We generally pay our suppliers of steel products upon receipt of their deliveries. Payments for all other supplies, including outsourced parts and components and other raw materials, are generally due in one to three months after receipt of deliveries. We believe that these credit terms granted by our suppliers are in line with current general market practices in China.

None of the Directors, their respective associates or, so far as the Directors are aware, any of our Shareholders who owns more than 5% of our issued share capital immediately upon completion of the Global Offering has any interest in any of our top five suppliers for 2004, 2005, 2006 and the nine months ended September 30, 2007.

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Research and Development

As the first domestic manufacturer to import heavy truck technologies from Europe, we have gained expertise in truck design and engineering through two decades of proprietary research and international collaborations. Our research and development is conducted through Sinotruk Jinan Technical Center and Sinotruk Factory Design Institute, supported by a variety of coordinated research and development efforts at specialized research and development departments at our subsidiaries. These specialized research and development departments focus on developing new products, improving emission level for our trucks, enhancing the functionalities of various parts and components of a truck, such as cabins, engines, vehicle bodies, and refining production engineering and other special aspects of heavy trucks, by applying state-of-the-art technology and utilizing advanced equipment.

Our research and development center is a nationally accredited heavy truck research and development institute and has led a national heavy truck research project, “863” project commissioned by the PRC government. In recent years and particularly during the Track Record Period, our research and development efforts have primarily focused on improving the design and engineering of key truck components, such as cabin, axle and chassis, to enhance the functionality, performance and loading capacity of our products. As a result of our research and development efforts, in July 2006, we received gold medals for our driver cabin, our driving axle, our truck chassis and suspension system in the China International Patent and Brand Expo organized by the PRC State Intellectual Property Office. We believe our heavy truck manufacturing technologies excel in the PRC market, due in large part to the sophistication of our research and development capabilities, which directly lead to improvement of our production efficiency and product popularity.

As of September 30, 2007, our research and development team consisted of 370 people. We recruit talented engineers from all over China. We also emphasize retention of our research and development personnel. Some of our research and development engineers possess more than 20 years of experience in developing automobile and related products.

For 2004, 2005, 2006 and the nine months ended September 30, 2007, our expenditures in research and development totaled Rmb 87.4 million, Rmb 78.4 million, Rmb 93.7 million and Rmb 95.1 million, respectively.

Intellectual Property

We regard our copyrights, trademarks, patents, trade secrets and other intellectual rights as critical to the success of our business. One of our key objectives is to develop our products with our proprietary technologies so that we can provide our customers with advanced technological solutions at competitive prices. We rely on trademark, patent and copyright laws, trade secret protection, non-competition and confidentiality pledges by our executive officers, and key research and development personnel to protect our intellectual property rights.

Our Parent Company has registered a number of trademarks and service marks with the PRC and Hong Kong trademark authorities, such as the trademarks of “SINOTRUK,” “斯太爾” (Sitaier), “斯太爾王” (Sitaier King), “豪濶” (HOWO) and the service mark of “親人” (qinren) with the PRC

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trademark authorities. According to a license agreement dated November 3, 2007, our Parent Company granted a non-exclusive right for us to use all its registered trademarks and service marks free of charge for an initial term of three years, which is renewable at our request. As of September 30, 2007, we owned 52 registered patents issued by the PRC patent authorities, of which six were invention patents, 45 were utility model patents and one was a design patent. As of the same date, our Parent Company was the legal owner of 578 registered patents issued by the PRC patents authorities, of which 18 were invention patents, 481 were utility model patents and 79 were design patents. We are authorized to use all of these patents owned by our Parent Company free of charge for an initial term of three years, renewable at the same terms at our option, pursuant to a license agreement dated November 3, 2007.

As our rights under these license agreements are non-exclusive, each subsidiary of our Parent Company, other than our company, also has the right to use these trademarks, service marks and patents.

Inventory

Although our production is largely order based, we maintain inventories of raw materials and parts and components to promptly fill purchase orders. Our inventories also include finished products and work-in-progress at any time of reference. Our inventory build-up from time to time is also attributable to our sales practice and developing new products market conditions as follows:

- As part of our sales policy, we generally do not sell our trucks on credit except to buyers with solid financial credit and upon approval of our top management. All trucks which are made to order but not yet fully paid for by customers are recorded as inventory.
- As our principal truck manufacturing facilities are located in Jinan and we sell our products throughout China, the delivery of our trucks from our warehouses to our customers usually takes three to 10 days depending on the distance. Such trucks in transit are accounted as inventory and delay our recognition of revenue until they are received and accepted by the customers.
- Purchase orders for specialty vehicles or for trucks with special features generally take longer to deliver. To the extent that we need to refit the trucks to meet end-users' special needs, we typically ship our truck chassis to third-party refitting companies for modification or installation of additional parts and components. In such cases, the time required to complete the relevant refitting requirements prolongs our inventory turnover and delays our recognition of revenue.

To minimize our inventory build-up and shorten our inventory turnover, we have put in place a TRP system and "one-through-line" MIS system to manage our inventory, production and delivery on a real-time basis. Through the computerized system, we attempt to monitor our inventory and production to avoid excessive inventory and enhance production efficiency. It is our policy to maintain a minimum level of inventory of raw materials and parts and components. We have made arrangements

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with most of our suppliers of raw materials and outsourced parts and components to reduce our risk of excessive inventory. Under these arrangements, we have raw materials and parts and components delivered to our warehouses in advance of their anticipated use, and they remain as the suppliers' inventories until we use them in our production.

We divide our inventory into raw materials, work-in-progress and finished goods to assist our internal tracking processes. Our inventory turnover for 2004, 2005, 2006 and the nine months ended September 30, 2007 was approximately 73 days, 107 days, 89 days and 68 days, respectively. As of September 30, 2007, our provisions for inventory impairment were approximately Rmb 72.5 million.

Competition

The PRC heavy truck manufacturing industry is highly concentrated and competitive. For 2005, 2006 and the nine months ended September 30, 2007, PRC manufacturers sold a total of 236,586, 307,296 and 374,895 heavy trucks, respectively, with 202,842, or 85.7%, 257,536, or 83.8%, and 309,242, or 82.5%, respectively, of these heavy trucks produced by the five largest manufacturers, according to the China Automobile Industry Association. For further information on the PRC heavy truck industry, see "Industry Overview and Regulation" in this prospectus.

We also face competition from non-PRC manufacturers. In recent years, China's accession to the WTO has accelerated competition from foreign heavy truck makers, not only through imported foreign-made trucks and parts and components, but also through increasing entries by foreign heavy truck manufacturers into China. Foreign heavy truck manufacturers that have formed Sino-foreign joint ventures in China to produce heavy trucks or have established technological collaborative relationships with local manufactures include Volvo Truck Corporation, Nissan Motor Co., Ltd. and Isuzu Motors Limited. Intense competition in the heavy truck industry in China has added pricing pressure as well as generated incentive for heavy truck manufacturers in China to hasten technological innovations. We believe imports of heavy trucks declined due to intense competition in the heavy truck industry in China, which has caused price pressure and rapid technological improvements, making domestic heavy trucks a better value than imports.

We believe that the principal factors affecting competition in the PRC heavy truck market are research and development, product quality, pricing, brand recognition, customers' delivery schedules, responsiveness to design specifications of customers, distribution channels and capabilities, and customer services. To further improve our competitiveness, we plan to strengthen our research and development capabilities, enhance our production capacities, diversify and upgrade our product lines, increase quality and cost control, further promote our brand names through advertising, and further integrate our sales network with our service network.

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Properties and Facilities

Our manufacturing facilities

As of September 30, 2007, our total production capacity was approximately 70,000 units of trucks and 100,000 units of engines on an annualized basis. Our major manufacturing facilities are located in Jinan of Shandong province, Chongqing municipality and Hangzhou of Zhejiang province. The following table sets forth the relevant details of our major manufacturing facilities for the periods as indicated.

Location	Primary manufacturing company	Product	Annual Capacity	Utilization	Annual Capacity	Utilization	Annual Capacity	Utilization	Annual Capacity	Annualized Utilization
			as of December 31, 2004	rate for 2004	as of December 31, 2005	rate for 2005	as of December 31, 2006	rate for 2006	as of September 30, 2007	rate as of September 30, 2007
Jinan, Shandong . . .	Sinotruk Jinan Truck Company	Trucks	40,000	95.9%	60,000	51.9%	60,000	74.6%	60,000	133%
Jinan, Shandong . . .	Sinotruk Jinan Commercial Truck Company	Trucks	4,000	84.1%	8,000	47.2%	8,000	96.9%	10,000	139%
Jinan, Shandong . . .	Sinotruk Jinan Power	Engines	—	—	—	—	30,000	51.0%	40,000	112%
Jinan, Shandong . . .	Sinotruk Jinan Axle & Transmission Company	Axles	100,000	164.8%	170,000	78.8%	282,000	59.4%	282,000	116%
Chongqing	Sinotruk Chongqing Fuel System	Fuel pump & nozzle	80,000	87.6%	120,000	38.5%	135,000	61.3%	135,000	103%
Hangzhou, Zhejiang	Sinotruk Hangzhou Engine	Engines	50,000	45.7%	50,000	36.8%	50,000	91.0%	60,000	106%

We have calculated our utilization rates listed in the above table by dividing our actual production output during the period by the design production capacity at the end of each period. Our design production capacity is based on eight working hours per day and design specifications of our equipment. As we often acquire new equipment or upgrade existing facilities during the year, the year end manufacturing capacity is usually higher than the actual capacity available during the year. As a result, the annual utilization rate does not necessarily reflect our actual utilization of the manufacturing facilities during the year. In fact, we have consistently experienced capacity shortage, especially during the peak months. Based on our outlook on the heavy truck market in China and overseas, we believe our capacity expansion plan is critical in attaining our goal of becoming the leading heavy truck manufacturer in China.

The overall lower utilization rate at our manufacturing facilities in 2005 and the subsequent increase were consistent with the lower market demand for heavy trucks due to the industry-wide slow down in 2005 and the subsequent recovery in 2006. The utilization rates of our production facilities for the nine months ended September 30, 2007 increased substantially because of our increased sales volume driven by strong market demand.

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The utilization rate of the manufacturing capacity of Sinotruk Jinan Axle & Transmission Company exceeded 100% in 2004 because we had to use more than one shift to maximize the utilization of our equipment due to market demand. The utilization rate of manufacturing capacity of Sinotruk Jinan Axle & Transmission Company decreased in 2005 and 2006 as we completed phase two and phase three of our manufacturing capacity expansion project at Sinotruk Jinan Axle & Transmission Company in the respective year.

During the Track Record Period, Sinotruk Hangzhou Engine experienced a rapid increase in utilization rate, from 45.7% in 2004 to 91.0% in 2006. Prior to 2006, a majority of the engines used in our truck production was provided by Weichai Power. Since 2006, we primarily rely on self-produced engines to meet our truck production needs, which significantly increased the utilization rate of the manufacturing capacity at Sinotruk Hangzhou Engine, which produced approximately 75% of our total engine units produced in 2006. In addition to the impact of such change in our engine strategy, the utilization rate of Sinotruk Hangzhou Engine increased also because of the industry-wide recovery in heavy truck sales in 2006.

Our production facilities under construction

We are currently planning to increase our manufacturing capacity and improve our manufacturing process by adding more facilities, assembly lines and advanced manufacturing equipment. We have manufacturing facilities under construction in Hangzhou and Jinan.

Hangzhou. The existing facilities of Sinotruk Hangzhou Engine are located in the central urban area of Hangzhou. Such location has severely limited Sinotruk Hangzhou Engine's ability to expand its production and the facilities are currently running close to their maximum capacity. To increase our engine manufacturing capacity and upgrade production equipment at Sinotruk Hangzhou Engine to meet our growing needs, we have decided to relocate our engine manufacturing facilities in Hangzhou to new facilities in Xiaoshan district in the suburb of Hangzhou with a total site area of approximately 230,000 square meters. The construction of the new facilities commenced in September 2006 and is expected to be completed by 2008.

Jinan. We have acquired approximately 2.1 million square meters of land use rights in the Zhangqiu district in the suburb of Jinan, a portion of which are currently used to house the production facilities of Sinotruk Jinan Power. We plan to relocate the operations of Sinotruk Jinan Commercial Truck Company to this site upon the completion of constructions of new facilities on this site, which is expected to be in late 2007. According to our feasibility study, we aim to increase the truck manufacturing capacity of Sinotruk Jinan Commercial Truck from 10,000 units a year to almost 30,000 units a year by the end of 2007. We also plan to complete the installation of all new manufacturing equipment and the construction of all ancillary facilities at this site by 2010, at which point we aim to increase the manufacturing capacity of Sinotruk Jinan Commercial Truck to 50,000 units. The total investment for this project is estimated to be Rmb 600.0 million. We have used primarily working capital from operations and bank borrowings to fund this project so far and also expect to use a portion of the proceeds from the Global Offering to fund this project.

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For further information on our contemplated relocations, see “Risk Factors — Risks Relating to Our Business — We may lack adequate production capacity to meet further market demand for our products, and our contemplated facility expansion may not be completed as smoothly as we plan, all of which could cause us to lose market share” in this prospectus.

Other properties

In addition to our manufacturing facilities, as of September 30, 2007, we maintain sales offices across China. We lease the premises for our sales offices. These premises range in size from approximately 20 square meters to approximately 1,800 square meters and we use them primarily for managing our sales network and promoting and coordinating the sales and services of our products. We use the land or buildings in respect of all the properties we currently occupy as legally permitted in China.

As of September 30, 2007, we had not completed the registration of the relevant long-term land use rights certificate for property No. 7 from our Parent Company to us, and had not obtained the relevant building ownership certificates for three buildings of property No. 5 as identified in “Appendix IV — Property Valuation Report” in this prospectus. We are in the process of registering or applying for the relevant title documents to these properties. We expect to complete the registration for property No. 5 within approximately one year after our listing and expect to take longer to complete the registration for property No. 7. Our PRC counsel has advised that these registration or application processes are procedural and we do not expect any material legal obstacles in obtaining the relevant title documents to these properties. The properties without building ownership certificates identified above are used for research purposes, and have an aggregate area of 2,508.5 square meters, which account for approximately 0.3% of the total gross floor area of the total properties we own. The properties with defective title do not individually or as a whole materially contribute to our revenues.

We also use the properties leased from related parties for production and office uses. These leases are of a transitional nature and form part of our relocation to Xiaoshan district of Hangzhou and Zhangqiu district of Jinan. In addition, we lease various properties from independent third parties mostly used as our sales offices and storage spaces. Among these leased properties, the landlords of a total lease area of approximately 42,249.8 square meters have not provided to us the building ownership certificates or titles, accounting for approximately 59% of our total lease area from third parties. As of the Latest Practicable Date, we had not received from our lessors the relevant title documents for all leasehold properties identified under property No. 20 as identified in “Appendix IV — Property Valuation Report” in this prospectus.

Our Parent Company has undertaken to indemnify us against any loss arising from the title defects of the above properties and confirmed that the title defects of the above properties should not have a material legal risk on our business and our Listing. We confirm that the above properties are not crucial to our operations as a whole and that the operations we conduct within those properties do not individually or as a whole materially contribute to our revenues.

Details of our properties are set forth in “Appendix IV — Property Valuation Report” to this prospectus.

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Sallmanns (Far East) Limited has valued our property interests as of September 30, 2007. A summary of values and valuation certificates issued by Sallmanns (Far East) Limited are included in Appendix IV to this prospectus.

Legal Proceedings and Potential Litigation

As of the Latest Practicable Date, we were not involved in any litigation, arbitration or administrative proceedings that could have a material adverse effect on our financial condition and results of operations. We have, however, from time to time, been involved in certain legal proceedings, such as bank loan disputes, debt disputes, customer and supplier disputes and product quality claims arising out of the ordinary course of our businesses or the listing of Sinotruk Jinan Truck Company on the Shenzhen Stock Exchange. As of the Latest Practicable Date, we were involved in a number of lawsuits, nine of which each involved claims of over Rmb 1 million. We estimate that the total amount of claims of all law suits was approximately Rmb 24.0 million. None of these litigation, arbitration and administrative proceedings, individually or in the aggregate, have had any material adverse effect on our financial position or results of operations. As part of our accounting policy, we make full provision for legal claims where our PRC legal counsel determines that the risk of losing under the relevant claim is 50% or higher and will not make provision for legal claims where the risk of losing is lower than 50%. Under such policy, our total provision for legal claims was Rmb 4.3 million as of September 30, 2007. As we have already made full provisions for claims subject to high risk of losing, we did not disclose any contingent liability with respect to legal claims. Please see also note 28(a) to our Accountant's Report included in this prospectus.

On November 1, 2007, Weichai Power published an announcement alleging infringements to four of its utility model patents by its competitors, including us. Weichai Power has indicated in the announcement that it may take legal actions against the named infringers including us. The technologies involved in these patents are being used in certain parts we outsourced. After due inquiry and reasonable investigations of Weichai Power's allegations, we believe that the relevant technologies involved in the four utility model patents in dispute were either in the public domain or had been used by us prior to the issuance of the respective patent. We initiated proceedings to repeal these patents in question under the applicable PRC patent laws and the patent review committee of the State Intellectual Property Office of the PRC issued formal notice of acceptance of our repeal application on November 6, 2007.

We believe that the parts affected by these alleged infringements are only de minimis in amount, ancillary in nature and equivalent parts made with alternative application technologies at comparable costs are readily available in the market. As such, we can substitute the allegedly "infringing" parts with viable replacements at similar costs without causing significant disruption or other material adverse effect to our production of engines and trucks. Our Parent Company has also undertaken to indemnify us for any loss or damage that we may suffer as a result of any lawsuits filed by Weichai Power against us. Therefore, we believe that, even if the threatened legal action were to materialize and be resolved in an outcome unfavorable to us, it should not result in any material adverse impact on our business and operations. However, we cannot guarantee that there will not be any other possible disputes with, or claims made by, Weichai Power in the future.

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Environmental Compliance

We are subject to national and local environmental protection regulations in China. Under the current PRC environmental laws, if the PRC government finds our operations to be in violation of applicable PRC environmental protection laws or regulations, we will be given a period of time to remedy the violation. Should we fail to do so, the PRC government may force a shut-down of our operations until such time as we have complied with the regulations. In addition, our products are subject to environmental regulations on emissions. Our products currently meet the standards imposed by the PRC government.

We strive to reduce the environmental impact from our products and processes. For disposal of used oil and hazardous wastes, we have hired companies certified by the relevant PRC authorities, such as Jinan Hanyang Solid Waste Disposal Co., Ltd. and Jinan Xinyuan Recycle Company, to dispose of such wastes as required by the PRC law. Both companies are independent of us. They are responsible for the delivery and disposal of oil and waste generated by our operations. We dispose of other solid and liquid wastes generated during our production process in accordance with the PRC laws and regulations. In the past, the PRC environmental authorities have imposed sanctions on us for incidents of non-compliance with respect to our production and facilities. These sanctions primarily related to noise pollution and dust pollution. In each occasion, we ceased such pollution and promptly modified our production process to comply with orders issued by the environmental authorities. In addition, we are in the process of relocating substantially all of our manufacturing facilities currently located in urban areas to suburbs in Jinan and Hangzhou that are more suitable for manufacturing activities and industrial development. The aggregate environmental fines imposed on us amounted to approximately Rmb 18,000 during the Track Record Period. These sanctions have not resulted in any material adverse impact on our business, financial condition and results of operations. However, as disclosed in “Risk Factors — Risks Relating to the Heavy Truck Industry in China — Environmental protection laws and policies in China and other countries where our products are marketed may subject us to significant compliance costs” and “Industry Overview and Regulation — Regulations” in this prospectus, we cannot give any assurance on the impact of environmental regulations on our operations in the future.

We consider environmental compliance important to our operations. Under the PRC laws, we are not allowed to start our construction projects until we have obtained the relevant approvals from the relevant environmental authorities and satisfied with our own environmental impact assessment. Under the Law on Environmental Impact Assessment effective from September 1, 2003, we must submit environmental impact assessment reports to the State Environmental Protection Administration at the relevant national, provincial or local levels with respect to any environmentally sensitive projects, which include, as set forth in the catalog published by the State Environmental Protection Administration, machinery and equipment manufacturing. For any environmentally sensitive project, we must engage an independent qualified environmental appraiser to assess the environmental impact and to prepare the report for submission to the government. In addition, the PRC laws do not permit any environmentally sensitive project to begin construction until the government regulators are satisfied with the environmental impact assessment.

We incurred annual expenditures of approximately Rmb 14.3 million, Rmb 10.4 million, Rmb 12.6 million and Rmb 17.2 million relating to environmental compliance matters for 2004, 2005, 2006 and the nine months ended September 30, 2007, respectively.

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Insurance

We currently hold insurance policies that we believe are sufficient for our operations, as well as customary and standard for companies of comparable size in the heavy truck manufacturing industry in China. For the nine months ended September 30, 2007, we incurred insurance premiums of approximately Rmb 13.8 million for insuring our property and equipment. In addition, we maintain insurance coverage against workplace or work-related deaths and injuries for the benefit of our employees and we paid a total of approximately Rmb 2.3 million, Rmb 2.3 million, Rmb 3.0 million and Rmb 2.9 million in insurance premiums for such insurance for 2004, 2005, 2006 and the nine months ended September 30, 2007.

We do not maintain product liability insurance or third party liability insurance for claims of personal injury or property damage arising from accidents on our property or relating to our operations or products. Nor do we maintain business interruption insurance. Although no material third party liability claims or accident compensation claims have been filed against us in the past, there can be no assurance that such claims will not be brought against us in the future. See “Risk Factors — Risks Relating to the Heavy Truck Industry in China — The customary practice of not carrying product liability insurance in the PRC automotive industry may subject us to potential product liability claims” in this prospectus.

Trade Financing

As part of our trade financing arrangements, our Parent Company and some of our subsidiaries entered into contracts with respect to bank and commercial notes with certain commercial banks in China. Under these contracts, we are normally required to make an initial deposit into the bank in an amount of 50% of the face amount of the bank/commercial notes we issued and presented to the relevant banks for discounting. Upon presentation, we obtain an amount equal to the face amount of the bank/commercial notes after deducting discounted interest. The difference between the initial deposit and discounted amount represents trade financing granted to us by the relevant banks and counts toward the credit limit under our overall facilities granted to us by the relevant banks. These notes are typically due in six months. On or before the due date, we pay the remaining 50% of the face amount.

As the discounted interest rates of bank/commercial notes are normally lower than the prevailing interest rates for short-term bank loans, to take advantage of these lower interest rates, our Parent Company and some of our PRC subsidiaries obtained working capital through issuing commercial/bank notes to each other and discounting them from relevant banks during the Track Record Period, in amounts which exceeded the amount of actual intra-Group transactions. As advised by our PRC legal counsel, DeHeng Law Offices, during the process of restructuring and listing application, such a practice is not in compliance with the PRC Negotiable Instruments Law and other relevant PRC laws (hereinafter referred to as “non-compliant trade financing”).

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The working capital obtained from banks through such non-compliant trade financing during the Track Record Period was estimated to be nil, Rmb 1.7 billion, Rmb 0.6 billion and nil, respectively.¹

We ceased to conduct such non-compliant trade financing in September 2006 and have subsequently taken a series of actions to address this issue:

- (1) ***Legal opinion from our PRC counsel.*** To obtain an assessment on the legal consequences of such non-compliant trade financing on us and our Directors and senior management, we have sought legal advice from our PRC counsel, DeHeng Law Offices. On the basis that we have utilized such trade financing practice to fund short-term working capital and we have repaid all amounts due to the relevant banks on time, our PRC counsel advised that we and our Directors and senior management will not be subject to any criminal, administrative or civil liabilities, sanctions, fines or penalties in China as a result of such non-compliant trade financing activities. Our PRC counsel has further advised that, based on the fact that the relevant banks have not incurred any losses, we will not be liable to the banks for any liabilities or damages arising from such trade financing practice. These legal opinions are consistent with the confirmations we obtained from the relevant banks and relevant government agencies as further described below.
- (2) ***Confirmations from relevant banks.*** In May, 2007, we met with the relevant lending banks that have entered into trade financing arrangements with us and obtained their confirmations that they will not take any legal action against us, our Directors or senior management in relation to the non-compliant trade financing because we have not misled or defrauded them and they had not incurred any losses as a result of our non-compliant trade financing activities.
- (3) ***Confirmations from and consultation with relevant government agencies.*** In addition, in June 2007, we have obtained written confirmation from the Jinan District Office (the “District Office”) of the People’s Bank of China (PBOC), one of the eight district offices of PBOC in charge of Shandong and Henan provinces. The PBOC is responsible for drafting the PRC Negotiable Instruments Law and other related rules and regulations. In its written response on June 26, 2007, the District Office was of the view that our issuance of bank/commercial notes in an amount in excess of the underlying transactions to fund short-term working capital needs at lower interest rates was not in compliance with the PRC Negotiable Instruments Law. However, the District Office confirmed that it will not impose any penalty on us and our Directors or senior management for the following reasons: (i) Article 27(2) of the PRC Administrative Penalty Law specifically provides that

1. The total bank/commercial notes issued within our Parent Company and our PRC subsidiaries and discounted from relevant banks exceeded the amount of actual intra-group transactions by nil, Rmb 6.8 billion and Rmb 2.4 billion, respectively, for 2004, 2005 and 2006. Because bank/commercial notes are normally due in six months and we have normally deposited in the relevant banks 50% of the face amount of such bank/commercial notes, the working capital obtained through non-compliant trade financing on an annual basis was estimated to be 25% of the difference between the total amount of commercial/bank notes discounted and the amount of actual intra-Group transactions.

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administrative penalties may be waived for immaterial breaches of law that have been rectified promptly without serious consequence being caused, (ii) we have repaid the obligations due under the notes on time, and (iii) such non-complaint activities have not resulted in any economic disputes or losses.

On July 3, 2007, we, together with our PRC counsel, met with the China Banking Regulatory Commission (“CBRC”) to make further consultations on our non-compliant trade financing activities. The CBRC deemed our non-compliant trade financing to be one of those “immaterial breaches of law” as provided under Article 27(2) of the PRC Administrative Penalty Law, which states that “penalties may be waived for immaterial breaches of law that have been rectified promptly with no serious consequence caused.” As such, the CBRC will not take any punitive measures against the banks involved in our non-compliant trade financing activities since such trade financing activities have not resulted in any loss on those banks and we have ceased to conduct these activities and have undertaken not to engage in such activities in the future.

(4) ***Strengthening our internal control systems.*** In connection with our engagement of Protiviti, an independent internal control advisor, to examine our overall internal control systems, we have particularly asked Protiviti to examine our internal control policies and procedures in relation to our bank/commercial note transactions. With the assistance of Protiviti, we have formulated and approved a series of specific internal guidelines to ensure cross checking of bank/commercial notes against underlying contracts and ensure that all future trade financings are properly supported by actual transactions or real debt relationship. The key measures include:

- setting up cross-checking mechanisms to ensure that the duties of trade financing-related matters, such as issuing and approving of bank/commercial notes, are properly segregated;
- setting up mechanisms to prepare and review the notes summary and notes payable summary periodically; and
- engaging an independent internal control and risk consulting company to review and test our trade financing activities periodically for compliance with the policies and review reports that have been reviewed and approved by the audit committee.

On July 4, 2007, we have separately engaged Protiviti to review the compliance of the approved internal control policies and procedures over issuing, recording and management of bank/commercial notes for the period from January 1, 2007 to September 30, 2007. In the special reports issued by Protiviti to us on July 28, 2007 and October 10, 2007, Protiviti concluded that:

- It did not identify any operating ineffectiveness of internal controls over the bank/commercial notes transactions from January 1, 2007 to September 30, 2007; and

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- It did not identify any bank/commercial notes issued among the subsidiaries of the company from January 1, 2007 to September 30, 2007, which were not supported by genuine commercial transactions.

Please see “— Internal Controls” below for further information on the engagement, scope of work, findings and recommendations of Protiviti in relation to our internal control systems in general.

Our Parent Company has agreed to indemnify us against any and all potential losses, liabilities and expenses, if any, arising out of claims, fines, penalties and sanctions relating to our use of these non-compliant commercial/bank notes.

Internal Controls

With the objectives of establishing and maintaining high standards of internal control over our operations and financial management, we have adopted a set of policies and procedures to promote the consistency and transparency of our operational and financial management with built-in checks and balances. We have also retained Protiviti to evaluate our internal controls and to provide recommendations on how we can further improve the effectiveness of our internal control system.

The scope of work conducted by Protiviti since its appointment in January 2007 includes review of our internal controls over financial reporting at both entity level and process level, making recommendations to improve our existing internal control system, conducting follow-up testing and review of remedial measures implemented. Certain corporate governance measures including the role of the audit committee and effectiveness of internal audit functions were also reviewed. Key business processes such as sales, procurement, inventory management, fixed assets, treasury management and financial reporting were selected for review and testing.

In addition, Protiviti conducted extensive interviews with personnel in charge of each of our business units, performed walkthrough tests of control points and reviewed our procedural manuals.

Based on its review, Protiviti has identified certain deficiencies in our internal control systems, such as the entity level control, process level control and information technology general control. It has also provided recommendations to rectify these control deficiencies. We have implemented various measures based on Protiviti’s recommendations and have rectified most of the deficiencies identified.

In July 2007, Protiviti performed walkthrough test of key control points on a sample basis and noted that new control measures had been implemented and confirmed that the remediation on process level control deficiencies had been completed and only remediation on a few areas within the entity level control and technology general control was still in the process:

<u>Key findings</u>	<u>Recommendations</u>
Lack of a systematic risk assessment process	To establish a formal corporate risk assessment process led by the internal audit department of the company

BUSINESS

<u>Key findings</u>	<u>Recommendations</u>
Lack of timely and comprehensive policies and procedures in the key business areas	To understand and document, supplement and consummate the respective policies and procedures in the key business areas
Insufficient self-assessment system	To set up a systematic self-assessment mechanism and perform self-assessment on a regular basis
Lack of a set of centralized policies relating to information technologies	To adjust the structure of the IT organizations, clarify and redefine their roles and responsibilities, and enhance the relevant policies.

In addressing these remaining few remedial tasks, with the assistance of Protiviti, we set up future action plans and work plans, and timetable to adopt the remaining recommendations of Protiviti. Internal control is usually an ongoing process and we will implement and integrate the remaining few recommendations with our existing internal controls.

In addition, in order to ensure that our internal control systems are up-to-date and functioning properly, we will adopt additional measures after listing, including:

- We will engage an independent consulting firm to review our trade financing activities on a full scope basis every quarter for the 12 months after listing;
- We will engage an independent consulting firm to review and test the effectiveness of our internal control measures with respect to every quarter for the 12 months after listing;
- We will disclose these review results in our interim/annual reports;
- We will continue to engage an independent professional party to conduct periodic review and test the effectiveness of our internal control system subsequent to the first 12 months after the Listing, until our independent non-executive Directors determine otherwise; and
- Our audit committee will review the internal control environment on a continuing basis after listing.

We believe our Board of Directors comprising independent non-executive Directors and Directors with relevant industrial expertise will assess the adequacy and effectiveness of our internal control system based on the independent professional party's periodic review. For the independence and qualifications of our Directors, please see the section headed "Directors, Senior Management and Employees."