QINGLING MOTORS CO. LTD

(A Sino-foreign joint venture joint stock limited company
incorporated in the People's Republic of China ("PRC") with limited liability)

2001 Interim Report

德勤·關黃陳方會計師行

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INDEPENDENT REVIEW REPORT
TO THE BOARD OF DIRECTORS OF QINGLING MOTORS CO. LTD

(a Sino-foreign joint venture joint stock limited company established in the People's Republic of China with limited liability)

Introduction

We have been instructed by the directors of Qingling Motors Co. Ltd ("the Company") to review the interim financial report set out on pages 3 to 19.

Directors' responsibilities

The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") require the preparation of an interim financial report to be in compliance with the Statement of Standard Accounting Practice 25 "Interim financial reporting" ("SSAP 25") issued by the Hong Kong Society of Accountants and the relevant provisions thereof. However, the Listing Rules permit departure from SSAP 25 in that comparative figures are not required for the first condensed consolidated cash flow statement to be included in the interim financial report relating to accounting period ended on or after 1st July, 2000. The interim financial report is the responsibility of, and has been approved by, the directors.

Review work performed

We conducted our review in accordance with the Statement of Auditing Standards 700 "Engagements to review interim financial reports" ("SAS 700") issued by the Hong Kong Society of Accountants. A review consists principally of making enquiries of group management and applying analytical procedures to the interim financial report and based thereon, assessing whether the accounting policies and presentation have been consistently applied unless otherwise disclosed. A review excludes audit procedures such as tests of controls and verification of assets, liabilities and transactions. It is substantially less in scope than an audit and therefore provides a lower level of assurance than an audit. Accordingly we do not express an audit opinion on the interim financial report.

Review conclusion

On the basis of our review which does not constitute an audit, we are not aware of any material modifications that should be made to the interim financial report for the six months ended 30th June, 2001.

Without modifying our review conclusion, we draw to your attention that the comparative condensed consolidated income statement for the six months ended 30th June, 2000 disclosed in the interim financial report has not been reviewed in accordance with SAS 700.

DELOITTE TOUCHE TOHMATSU
Certified Public Accountants

Hong Kong
28th August, 2001

Condensed Consolidated Income Statement

For the six months ended 30th June, 2001

	Notes	**1.1.2001 to 30.6.2001 (Unaudited)** *RMB'000*	**1.1.2000 to 30.6.2000 (Unaudited)** *RMB'000*
Turnover		1,697,918	2,018,756
Cost of sales		(1,366,109)	(1,591,226)
Gross profit		331,809	427,530
Other revenue		32,898	40,285
Distribution costs		(41,569)	(76,868)
Administrative expenses		(53,518)	(49,763)
Profit from operations	3	269,620	341,184
Finance costs	4	(68,228)	(64,917)
Profit before taxation		201,392	276,267
Taxation	5	(30,412)	(66,444)
Profit before minority interests		170,980	209,823
Minority interests		670	462
Net profit for the period		171,650	210,285
Earnings per share	7		
— Basic		RMB0.0857	RMB0.1050
— Diluted		RMB0.0755	RMB0.0914

CONDENSED CONSOLIDATED BALANCE SHEET

At 30th June, 2001

	Notes	30.6.2001 (Unaudited) RMB'000	31.12.2000 (Audited) RMB'000
ASSETS			
Non-current assets			
Property, plant and equipment	8	4,073,714	4,101,795
Intangible assets		148,873	157,848
Deposits paid in respect of purchase of property, plant and equipment		63,010	63,010
		4,285,597	4,322,653
Current assets			
Inventories		1,966,586	1,718,918
Trade receivables, deposits and prepayments	9	860,118	625,284
Bills receivable	10	1,396,708	1,907,412
Bank balances, deposits and cash		1,216,014	1,444,851
		5,439,426	5,696,465
TOTAL ASSETS		9,725,023	10,019,118

	Notes	30.6.2001 (Unaudited) *RMB'000*	31.12.2000 (Audited) *RMB'000*
SHAREHOLDERS' EQUITY AND TOTAL LIABILITIES			
Capital and reserves			
Share capital	11	2,007,545	2,002,403
Reserves	12	3,009,565	3,018,541
		5,017,110	5,020,944
Minority interests		169,334	170,004
Non-current liabilities			
Convertible bonds		870,314	891,036
Current liabilities			
Trade and other payables	13	1,747,465	2,009,452
Tax payable		20,800	27,682
Bank loans		1,900,000	1,900,000
		3,668,265	3,937,134
		9,725,023	10,019,118

CONDENSED CONSOLIDATED STATEMENT OF RECOGNISED GAINS AND LOSSES

For the six months ended 30th June, 2001

	1.1.2001 to 30.6.2001 (Unaudited) *RMB'000*	**1.1.2000 to 31.12.2000 (Unaudited)** *RMB'000*
Net profit for the period and total recognised gains	171,650	210,285
Effect of change in accounting policy upon adoption of SSAP 9 (Revised)		
— increase in dividend reserve at 31st December, 2000		200,240

CONDENSED CONSOLIDATED CASH FLOW STATEMENT

For the six months ended 30th June, 2001

	1.1.2001 to 30.6.2001 (Unaudited) *RMB'000*
Net cash inflow from operating activities	122,759
Net cash outflow from returns on investments and servicing of finance	(277,920)
Net cash outflow from investing activities	(36,382)
Taxation paid	(37,294)
Decrease in cash and cash equivalents	(228,837)
Cash and cash equivalents at 1st January	1,444,851
Cash and cash equivalents at 30th June	1,216,014

1. ACCOUNTING POLICIES

The condensed consolidated financial statements have been prepared under the historical cost convention.

The condensed consolidated financial statements have been prepared in accordance with the Statement of Standard Accounting Practice ("SSAP") 25 "Interim financial reporting" ("SSAP 25") issued by the Hong Kong Society of Accountants, except that comparative figures are not presented for the condensed consolidated cash flow statement, being the condensed consolidated cash flow statement to be included in the first interim financial report relating to accounting period ended on or after 1st July, 2000. Such departure from SSAP 25 is permitted under the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited.

In the current period, the Company has adopted a number of new or revised SSAPs. The adoption of these new or revised SSAPs does not have any effect on the current or the prior periods financial statements, except for SSAP 9 (Revised) "Events after the balance sheet date" which specifies that dividends declared after the balance sheet date but before the financial report was authorised for issue should be disclosed as a separate component of equity. In prior periods, dividends declared after the balance sheet date but before the financial report was authorised for issue were recognised as liabilities in the balance sheet. The adoption of SSAP 9 (Revised) has been applied retrospectively and resulted in the increase in dividend reserve at 31st December, 2000 by approximately HK$200,240,000.

The accounting policies adopted are consistent with those followed in the Group's annual audited financial statements for the year ended 31st December, 2000.

2. SEGMENT INFORMATION

	Turnover		Profit (loss) before taxation	
	1.1.2001 to 30.6.2001	1.1.2000 to 30.6.2000	1.1.2001 to 30.6.2001	1.1.2000 to 30.6.2000
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Business segments				
Light-duty trucks	715,337	1,027,729	80,860	149,325
Multi-purposes vehicles	534,949	466,342	116,462	113,557
Pick-up trucks	408,391	422,252	64,515	60,906
Other vehicles	5,190	—	(57)	—
Automobile parts and accessories	34,051	102,433	(1,259)	3,479
	1,697,918	2,018,756	260,521	327,267
Finance costs, net of interest income			(59,129)	(51,000)
			201,392	276,267

All of the production facilities of the Group are located in the People's Republic of China (the "PRC") and substantially all of the sales of the Group are also made in the PRC. The Group has made export sales to Japan during the period which accounted for less than 1% of the Group's turnover for the period (for the six months ended 30th June, 2000: nil).

3. PROFIT FROM OPERATIONS

	1.1.2001 to 30.6.2001	1.1.2000 to 30.6.2000
	RMB'000	*RMB'000*
Profit from operations has been arrived at after charging:		
Amortisation of intangible assets	8,975	8,848
Depreciation and amortisation of property, plant and equipment	72,746	90,070
and after crediting:		
Interest income from bank deposits and balances	9,099	13,917

4. FINANCE COSTS

	1.1.2001 to 30.6.2001 *RMB'000*	1.1.2000 to 30.6.2000 *RMB'000*
Interest expenses on bank borrowings wholly repayable within five years	56,569	53,355
Interest expense on convertible bonds	15,729	15,708
Less: Interest capitalised in construction in progress	(6,480)	(6,472)
	65,818	62,591
Amortisation of direct issuance costs of convertible bonds	3,891	3,956
Less: Amount capitalised in construction in progress	(1,565)	(1,630)
	2,326	2,326
Direct issuance costs of convertible bonds written off upon conversion of convertible bonds	143	—
Less: Amount capitalised in construction in progress	(59)	—
	84	—
Total finance costs	68,228	64,917

5. TAXATION

All PRC domestic enterprises are subject to an unified income tax rate of 33% on their taxable profits. The Company is a foreign investment enterprise of a production nature established in a coastal economic open zone. Accordingly, the Company, as confirmed by the Chongqing Tax Bureau, was subject to PRC Enterprise Income Tax at the rate of 24% under the Income Tax Law of the PRC for Enterprises with Foreign Investment and Foreign Enterprises in the previous years. Pursuant to the "Notice of certain measures for implementation of exploration and development of western zone" issued by the State Council of the PRC, domestic investment enterprises and foreign investment enterprises located in the western zone of the PRC of a production nature and are engaged in the businesses encouraged by the State Government are entitled to PRC Enterprise Income Tax at the rate of 15% effective from 1st January, 2001. Accordingly, the Company, as confirmed by the Chongqing Branch Office of the State Tax Bureau, is subject to PRC Enterprise Income Tax at the rate of 15% from 1st January, 2001.

5. TAXATION (Cont'd)

The Company's subsidiaries are sino-foreign joint venture limited liability companies established in the PRC. As these subsidiaries are engaged or to be engaged in the production of advanced technology products and are located in New and High Technology Development Zone, accordingly, these subsidiaries, as confirmed by the Chongqing Tax Bureau, are subject to PRC Enterprise Income Tax at the rate of 15% and are exempted from income tax for the first two profitable years of operations and, thereafter, are entitled to 50% relief from income tax for the next three years under the Income Tax Law of the PRC for Enterprises with Foreign Investment and Foreign Enterprises. During the period, no PRC Enterprise Income Tax has been provided in the financial statements of the subsidiaries, as one of the subsidiaries incurred a loss for the period and another subsidiary has not yet commenced business (for the six months ended 30th June, 2000: nil).

No deferred taxation has been provided as there is no significant timing difference.

6. APPROPRIATIONS

The directors do not recommend the payment of an interim dividend for the six months ended 30th June, 2001 (for the six months ended 30th June, 2000: nil).

No transfer for the statutory reserve fund and statutory public welfare fund has been made from the net profit for the period. In accordance with the provisions of the Company's Articles of Associations, such transfer will be proposed by the directors at the general meeting for shareholders' approval.

7. EARNINGS PER SHARE

The calculation of the basic and diluted earnings per share for the period ended 30th June, 2001 is based on the following data:

Earnings

	1.1.2001 to 30.6.2001 *RMB'000*	**1.1.2000 to 30.6.2000** *RMB'000*
Net profit for the period and earnings for the purpose of basic earnings per share	171,650	210,285
Effect of dilutive potential shares:		
3.5% convertible bonds due in 2002	7,861	7,020
Earnings for the purpose of diluted earnings per share	179,511	217,305

7. EARNINGS PER SHARE (Cont'd)

Number of shares

	30.6.2001	**31.12.2000**
	'000	*'000*
Weighted average number of shares for the purpose of basic earnings per share	2,003,545	2,002,403
Effect of dilutive potential shares:		
3.5% convertible bonds due in 2002	185,631	186,773
Option granted to 慶鈴汽車(集團)有限公司 ("Qingling Group"), the Company's ultimate holding company	189,175	189,175
Weighted average number of shares for the purpose of diluted earnings per share	2,378,351	2,378,351

8. ADDITIONS TO PROPERTY, PLANT AND EQUIPMENT

During the period, the Group incurred approximately RMB44,687,000 (for the six months ended 30th June, 2000: RMB41,938,000) on additions to property, plant and equipment to maintain its continuing business.

9. TRADE RECEIVABLES, DEPOSITS AND PREPAYMENTS

At the balance sheet date, the aging analysis of trade receivables is as follows:

	30.6.2001	**31.12.2000**
	RMB'000	*RMB'000*
Within 3 months	495,466	408,262
Between 3 to 6 months	86,899	16,921
Between 7 to 12 months	34,385	83
Between 1 to 2 years	4,266	27,387
Over 2 years	6,438	5,330
	627,454	457,983

The Group allows an average credit period ranging from 90 to 180 days to its trade customers.

10. BILLS RECEIVABLES

At the balance sheet date, the aging analysis of bills receivables is as follows:

	30.6.2001	**31.12.2000**
	RMB'000	*RMB'000*
Within 1 month	237,663	347,937
Between 1 to 2 months	145,529	233,445
Between 2 to 3 months	323,347	388,309
Between 4 to 6 months	690,169	937,721
	1,396,708	1,907,412

Other than commercial bills receivables of RMB50,000,000 included in the balance at 30th June, 2001 (31st December, 2000: nil), all of the above bills receivables are guaranteed by banks. The expiry dates of the bills receivables range from 30 to 180 days.

11. SHARE CAPITAL

	Registered, issued and fully paid	
	30.6.2001	**31.12.2000**
	RMB'000	*RMB'000*
At beginning of the period/year	2,002,403	2,002,403
Issue of H shares upon conversion of Convertible Bonds	5,142	—
At end for the period/year	2,007,545	2,002,403

	Number of shares	
	30.6.2001	**31.12.2000**
	'000	*'000*
Shares of RMB1 each		
— Domestic shares	1,020,000	1,020,000
— H shares	987,545	982,403
	2,007,545	2,002,403

Except for the currency in which dividends are paid and the restrictions as to whether the shareholders can be PRC investors or foreign investors, Domestic shares and H shares rank pari passu in all respects with each other.

During the period, a total amount of US$2,990,000 Convertible Bonds were converted into new H shares of the Company. As a result, the Company allotted 5,142,135 new H shares to the holders of US$2,990,000 Convertible Bonds during the period.

There were no changes in the registered, issued and fully paid share capital of the Company during the year ended 31st December, 2000.

12. RESERVES

	Share premium	Capital reserve	Statutory surplus reserve fund	Statutory public welfare fund	Discretionary surplus reserve fund	Accumulated profits	Dividend reserve	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
At 1st January, 2000	595,304	572,239	232,759	232,759	—	873,011	—	2,506,072
Net profit for the year	—	—	—	—	—	512,469	—	512,469
Appropriation for the year	—	—	51,340	51,175	495	(103,010)	—	—
Proposed dividend	—	—	—	—	—	(200,240)	200,240	—
At 31st December, 2000 and 1st January, 2001	595,304	572,239	284,099	283,934	495	1,082,230	200,240	3,018,541
Premium arising on conversion of Convertible Bonds into new H shares	19,614	—	—	—	—	—	—	19,614
Dividend paid	—	—	—	—	—	—	(200,240)	(200,240)
Net profit for the period	—	—	—	—	—	171,650	—	171,650
At 30th June, 2001	614,918	572,239	284,099	283,934	495	1,253,880	—	3,009,565

13. TRADE AND OTHER PAYABLES

At the balance sheet date, the balance of trade and other payables included the amounts due to Qingling Group and certain associates and subsidiaries of Qingling Group as follows:

	30.6.2001	**31.12.2000**
	RMB'000	*RMB'000*
Qingling Group	423,850	467,605
Associates of Qingling Group	13,385	44,198
Subsidiaries of Qingling Group	24,958	22,435
	462,193	534,238

These amounts are unsecured, interest free and repayable on demand.

At the balance sheet date, the aging analysis of trade and bills payables is as follows:

	30.6.2001	**31.12.2000**
	RMB'000	*RMB'000*
Within 3 months	581,577	511,473
Between 3 to 6 months	10,019	41,029
Between 7 to 12 months	5,491	91
Over 12 months	6,099	9,711
	603,186	562,304

14. RELATED PARTY TRANSACTIONS

During the period, the Group have entered into the following transactions with related parties:

(a) Qingling Group

Type of transactions	Pricing policies	1.1.2001 to 30.6.2001 *RMB'000*	1.1.2000 to 30.6.2000 *RMB'000*
Purchase of automobile parts	At cost plus a maximum mark-up of 10%	19,236	140,212
Supply of parts and raw materials for the manufacture of automobile parts required by the Group	At cost	11,731	18,585
Income from renting of moulds and tooling equipment	Reimbursement of depreciation charge	2,003	—
Rental paid for letting of warehouse facilities	Fixed amount according to terms of the rental agreement	2,915	—
Sales of plant and equipment	At carrying value	4	—
Service fee expenses	Fixed amount according to terms of the service agreement	150	150
Service fee income	Cost reimbursement basis	31	31

14. RELATED PARTY TRANSACTIONS (Cont'd)

(b) 重慶慶鈴鑄造有限公司, a company in which Qingling Group has a 60.4% interest

Type of transactions	Pricing policies	1.1.2001 to 30.6.2001 *RMB'000*	1.1.2000 to 30.6.2000 *RMB'000*
Purchases of automobile parts	At cost plus a maximum mark-up of 10%	25,751	8,994
Supply of parts and raw materials for the manufacturing of automobile parts required by the Group	At cost	1,941	37
Sales of plant and equipment	At carrying value	180	—

(c) 重慶慶鈴鍛造有限公司, a company in which Qingling Group has a 55% interest

Type of transactions	Pricing policies	1.1.2001 to 30.6.2001 *RMB'000*	1.1.2000 to 30.6.2000 *RMB'000*
Purchase of automobile parts	At cost plus a maximum mark-up of 12%	20,861	8,178
Supply of parts and raw materials for the manufacture of automobile parts required by the Group	At cost	758	911

(d) 重慶慶鈴車橋有限公司, a company in which Qingling Group has a 49.6% interest

Type of transactions	Pricing policies	1.1.2001 to 30.6.2001 *RMB'000*	1.1.2000 to 30.6.2000 *RMB'000*
Purchases of automobile parts	At comparable market price	105,846	42,594
Supply of parts and raw materials for the manufacture of automobile parts required by the Group	At cost	45,908	52,827

14. RELATED PARTY TRANSACTIONS (Cont'd)

(e) 重慶慶鈴日發座椅有限公司, a company in which Qingling Group has a 50.8% interest

Type of transactions	Pricing policies	1.1.2001 to 30.6.2001 *RMB'000*	1.1.2000 to 30.6.2000 *RMB'000*
Purchase of automobile parts	At comparable market price	24,888	6,962
Supply of parts and raw materials for the manufacture of automobile parts required by the Group	At cost	4,436	4,373

(f) 重慶慶鈴塑料有限公司, a company in which Qingling Group has a 53.2% interest

Type of transactions	Pricing policies	1.1.2001 to 30.6.2001 *RMB'000*	1.1.2000 to 30.6.2000 *RMB'000*
Purchases of automobile parts	At comparable market price	21,535	25,073
Supply of parts and raw materials for the manufacture of automobile parts required by the Group	At cost	7,709	10,547

(g) 重慶慶鈴鑄鋁有限公司, a company in which Qingling Group has a 58.4% interest

Type of transactions	Pricing policies	1.1.2001 to 30.6.2001 *RMB'000*	1.1.2000 to 30.6.2000 *RMB'000*
Purchases of automobile parts	At cost plus a maximum mark-up of 12%	4,114	4,454
Supply of parts and raw materials for the manufacture of automobile parts required by the Group	At cost	559	130

15. CAPITAL COMMITMENTS

At the balance sheet date, the Group had the following capital commitments:

	30.6.2001	**31.12.2000**
	RMB'000	*RMB'000*
Contracted for but not provided in the financial statements in respect of purchase of property, plant and equipment	176,630	181,676

The Group had no significant capital commitments authorised but not contracted for as at 30th June, 2001 and 31st December, 2000.

16. CONTINGENT LIABILITIES

	30.6.2001	**31.12.2000**
	RMB'000	*RMB'000*
Discounted bills with recourse	50,000	95,910

17. DIFFERENCES BETWEEN ACCOUNTING PRINCIPLES GENERALLY ACCEPTED IN HONG KONG AND PRC ACCOUNTING STANDARDS AND REGULATIONS AS APPLICABLE TO THE GROUP

The financial statements prepared under accounting principles generally accepted in Hong Kong and those prepared under PRC accounting standards and regulations have the following major differences:

Impact on condensed consolidated income statement

	1.1.2001 to 30.6.2001 *RMB'000*	**1.1.2000 to 30.6.2000** *RMB'000*
Net profit for the period as per financial statements prepared under accounting principles generally accepted in Hong Kong	171,650	210,285
Less: Amortisation of intangible assets — electricity usage rights and other miscellaneous intangible assets not included in financial statements prepared under accounting principles generally accepted in Hong Kong	361	361
Net profit for the period as per financial statements prepared under PRC accounting standards and regulations	171,289	209,924

Impact on condensed consolidated balance sheet

	30.6.2001 *RMB'000*	**31.12.2000** *RMB'000*
Net assets as per financial statements prepared under accounting principles generally accepted in Hong Kong	5,017,110	5,020,944
Less: Proposed dividend regarded as a separate component of the shareholders' equity under accounting principles generally accepted in Hong Kong	—	(200,240)
Add: Electricity usage rights and other miscellaneous intangible assets, as mentioned above, net of amortisation, not included in financial statements prepared under accounting principles generally accepted in Hong Kong	13,563	13,924
Net assets as per financial statements prepared under PRC accounting standards and regulations	5,030,673	4,834,628

There are also differences in other items in the condensed consolidated financial statements due to differences in classification between accounting principles generally accepted in Hong Kong and PRC accounting standards and regulations.

Interim Dividend

The directors do not recommend the payment of an interim dividend for 2001 (2000: nil).

Interim Review of Operations

In the first half of the year, the effective demand in the PRC automobile market have remained sluggish with competition getting more and more intensified. The sales/production volume and sales revenue of light-duty trucks were dropped. Despite a slight increase in the sales/production volume of pick-up trucks, the sales revenue did not have any growth.

Adhering to its corporate policy of technical advancement and quality excellence in market competition, the Company has adopted a proactive strategy of development by undertaking massive, in-depth yet subtle tasks in an orderly manner. As a result, the Company has achieved for a hard results: in the first half of the year, the Company sold 14,770 vehicles, realizing a sales revenue of RMB1.7 billion and a net profit for the period of RMB172 million. During the period, the Company's earnings remained the first among all domestic light-duty truck manufacturing enterprises, and its N, T and U series still enjoyed a leading position and market shares in their respective markets. In all, the Company has been able to proceed with its development plans smoothly.

1. By timely introducing the latest technology of Isuzu, Japan, we successfully realized the domestic production of F series heavy trucks. Now the F series heavy trucks have been born in Qingling, realizing the six key assembly capacities and the bulk production of a whole vehicle. Moreover, based on customized needs of the end-users, we developed its product specifications that gave rise to a range of products from box trucks to other series of trucks with specific chasses. Meanwhile, we also launched a series of well-received promotional campaign and road shows.

2. To maximize their competitive edges, we adjusted and strengthened its marketing organ and sales network for its N, T, U and F series.

3. We conducted a structural adjustment based on the market and customer needs by enlarging the production and sales of U series and T series automobile and single-row carriages with more commercial functions. In addition, we also explored new markets for the purposes of boosting the sales.

4. We tightened up our internal management and worked hard to reduce the consumption of raw materials, fuel and energy, as well as the procurement cost of spare parts and components; exercised tough control on the quality of production process; and kept strengthening the technical training of its staff and workers so as to enhance the overall quality of the working force.

PROSPECTS OF THE SECOND HALF OF THE YEAR

During the first half of the year, most of the PRC light-duty truck manufacturers experienced a drop in volume of production and sales compared to the corresponding period last year. The Company managed to ward off the blow by putting forward timely measures to enhance and create new competitive edges. As these measures are beginning to bring about positive effects, we are fully confident about our development in the second half of the year:

1. We will take further action to organize N, T, U, F series in competition for a larger share in their respective markets.

2. We will strengthen and develop a corresponding marketing network for each of the four product series mentioned above, placing greater emphasis on the expansion of their own client base and the exploration of new markets.

3. We will continue to enhance our management in such areas as internal production, technical expertise, finance, sourcing, marketing, after-sales services. We will reduce our costs and strengthen the training provided for staff and workers.

As the State considers automobile consumption a good mean to increase the domestic demand, it is formulating and implementing a series of measures to regulate the market order and to facilitate its healthy development. While the market is getting fairer and healthier, the Company is set to benefit from this positive trend of development.

Impact of Asia's Economic Developments on the Company's Operations

The economies of certain Asian countries have experienced a downturn beginning from the third quarter of 1997 but the PRC economy has not been significantly affected. As the products of the Company are mainly sold in the domestic market, the operations of the Company have not been adversely affected by the Asian economic crisis. In addition, demands in the automobile market of PRC is expected to grow as the PRC government is stepping up its investments in infrastructural developments such as highway construction, urban development, environmental protection projects, power stations and communication networks to stimulate the domestic demand.

Preferential Treatments for Consolidated Income Tax and Local Tax

The Company was subject to PRC Enterprise Income Tax at the rate of 24% under the Income Tax Law of the PRC for Enterprises with Foreign Investment and Foreign Enterprises in the previous years. Pursuant to the "Notice of certain measures for implementation of exploration and development of western zone" issued by the State Council of the PRC, domestic investment enterprises and foreign investment enterprises located in the western zone of the PRC of a production nature and are engaged in the businesses encouraged by the State Government are entitled to PRC Enterprise Income Tax at the rate of 15% effective from 1st January, 2001. Accordingly, the Company, as confirmed by the Chongqing Branch Office of the State Tax Bureau, is subject to PRC Enterprise Income Tax at the rate of 15% from 1st January, 2001.

Designated Deposits

As at 30th June, 2001, the Group did not have any designated deposits or any time deposits that were overdue but could not be collected upon maturity.

Sales of Staff Quarters

The Group did not sell any staff quarters to its employees during the six months ended 30th June, 2001.

SHAREHOLDING STRUCTURE

I. As at 30th June, 2001, the entire share capital of the Company comprised 2,007,544,661 shares, including:

	Number of Shares	Percentage of total number of issued shares
Domestic Shares	1,020,000,000 shares	50.81%
Foreign Shares (H Shares)	987,544,661 shares	49.19%

II. Major shareholder:

As at 30th June, 2001, shareholder having an interest in 10% or more of the issued share capital of the Company as recorded in the share register required to be kept by the Company pursuant to Section 16(1) of the Securities (Disclosure of Interests) Ordinance (the "SDI Ordinance") is as follows:

Name of shareholder	Class of shares	Number of shares held	Percentage to entire share capital
Qingling Group	Domestic Shares	1,020,000,000 shares	50.81%

DIRECTORS' AND SUPERVISORS' INTERESTS IN SHARES

As at 30th June, 2001, none of the directors, supervisors and senior management of the Company or their associates had an interest in the securities of the Company or its associated corporation as defined under the SDI Ordinance. None of the directors, supervisors and senior management of the Company, their spouses or children under 18 had any rights to subscribe for the securities of the Company, nor has any of them exercised such rights.

Purchase, Sale and Redemption of the Company's Listed Securities

Neither the Company nor any of its subsidiaries has repurchased, sold, redeemed or cancelled any of the Company's listed securities during the six months ended 30th June, 2001.

Code of Best Practice

The Company has yet established an audit committee ("Audit Committee") aimed at reviewing and monitoring the Company's financial reporting procedures and internal control system in accordance with paragraph 14 of the Code of Best Practice ("Code of Best Practice") as set out in Appendix 14 of the Rules Governing the Listing of Securities on the Stock Exchange. Ever since its establishment, the Company has set up a Board of Supervisors charged with duties similar to those of the Audit Committee. The only difference is that the Board of Supervisors is composed of three members, of whom two are elected and removed by shareholders in General Meeting and the other one must be an employee of the Company and is elected and removed through democratic election by the staff and workers of the Company and the Board of Supervisors is responsible to shareholders in the General Meeting instead of the Board of Directors, whereas members of an Audit Committee are elected among Non-Executive Directors of the Company. Save for the above, none of the Directors are aware of any information that would reasonably indicate that the Company is not, or was not, for any part of the six months ended 30th June, 2001, in compliance with the Code of Best Practice.