

# NOTES TO THE CONDENSED FINANCIAL STATEMENTS

*For the six months ended 30th June, 2002*

---

## 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 Statement of Standard Accounting Practice (“SSAP”) No. 25 “Interim financial reporting” (“SSAP 25”) issued by the Hong Kong Society of Accountants (“HKSA”).

In the current period, the Company has adopted, for the first time, the following new and revised Statement of Standard Accounting Practice issued by the HKSA:

SSAP 1 (Revised)	Presentation of financial statements
SSAP 11 (Revised)	Foreign currency translation
SSAP 15 (Revised)	Cash flow statements
SSAP 34	Employee benefits

The new and revised standards have introduced revised disclosure requirements which have been adopted in the condensed financial statements. Comparative amounts for prior period have been restated in order to achieve a consistent presentation. The adoption of the above standards has had no significant effect on the results for the current or prior accounting periods.

The accounting policies adopted are consistent with those followed in the Group’s annual audited financial statements for the year ended 31st December, 2001.

## 2. SEGMENT INFORMATION

For management purposes, the Group is currently engaged in the manufacture and sales of six series of products — light-duty trucks, multi-purposes vehicles, pick-up trucks, heavy-duty trucks, other vehicles and automobile parts and accessories.

Principal business segments are as follows:

Light-duty trucks	—	manufacture and sales of light-duty trucks
Multi-purposes vehicles	—	manufacture and sales of multi-purposes vehicles
Pick-up trucks	—	manufacture and sales of pick-up trucks
Heavy-duty trucks	—	manufacture and sales of heavy-duty trucks
Other vehicles	—	manufacture and sales of vehicles other than those identified as above
Automobile parts and accessories	—	manufacture and sales of automobile parts and accessories

## 2. SEGMENT INFORMATION (Cont'd)

- (i) Segment information about these businesses for the period ended 30th June, 2002 is presented below:

	Light-duty trucks	Multi- purposes vehicles	Pick-up trucks	Heavy-duty trucks	Other vehicles	Automobile parts and accessories	Consolidated
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Turnover	713,386	268,571	368,531	96,286	7,458	21,464	1,475,696
Result							
Segment result	4,079	41,929	52,700	14,575	901	5,332	119,516
Unallocated corporate expenses							(9,674)
Finance costs, net of interest income							(40,317)
Profit before taxation							69,525
Taxation							(10,492)
Profit before minority interests							59,033
Minority interests							384
Net profit for the period							59,417

- (ii) Segment information about these businesses for the period ended 30th June, 2001 is presented below:

	Light-duty trucks	Multi- purposes vehicles	Pick-up trucks	Heavy-duty trucks	Other vehicles	Automobile parts and accessories	Consolidated
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Turnover	715,337	534,949	408,391	5,036	154	34,051	1,697,918
Result							
Segment result	86,336	120,557	67,641	155	(172)	(998)	273,519
Unallocated corporate expenses							(10,133)
Finance costs, net of interest income							(61,994)
Profit before taxation							201,392
Taxation							(30,412)
Profit before minority interests							170,980
Minority interests							670
Net profit for the period							171,650

## 2. SEGMENT INFORMATION (Cont'd)

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, 2001: less than 1%).

## 3. PROFIT FROM OPERATIONS

	<b>1.1.2002</b> <b>to 30.6.2002</b> <i>RMB'000</i>	<b>1.1.2001</b> <b>to 30.6.2001</b> <i>RMB'000</i>
Profit from operations has been arrived at after charging:		
Amortisation of intangible assets	10,987	8,975
Depreciation and amortisation of property, plant and equipment	64,634	72,746
and after crediting:		
Interest income from bank deposits and balances	<u>14,670</u>	<u>9,099</u>

## 4. FINANCE COSTS

	<b>1.1.2002</b> <b>to 30.6.2002</b> <i>RMB'000</i>	<b>1.1.2001</b> <b>to 30.6.2001</b> <i>RMB'000</i>
Interest expenses on bank borrowings wholly repayable within five years	51,135	56,569
Interest expense on convertible bonds	2,352	15,729
Less: Interest capitalised in construction in progress	<u>(969)</u>	<u>(6,480)</u>
	<u>52,518</u>	<u>65,818</u>
Amortisation of direct issuance costs of convertible bonds	260	3,891
Less: Amount capitalised in construction in progress	<u>(107)</u>	<u>(1,565)</u>
	<u>153</u>	<u>2,326</u>
Direct issuance costs of convertible bonds written off upon conversion of convertible bonds	—	143
Less: Amount capitalised in construction in progress	<u>—</u>	<u>(59)</u>
	<u>—</u>	<u>84</u>
Other financial expenses	<u>2,315</u>	<u>2,865</u>
Total finance costs	<u><u>54,986</u></u>	<u><u>71,093</u></u>

## 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.

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, 2001: 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, 2002 (for the six months ended 30th June, 2001: nil).

On 19th April, 2002, the directors proposed a 2001 final dividend of RMB0.05 per share in cash for the year ended 31st December, 2001. Accordingly, the 2001 final dividend of approximately RMB124,113,000 was paid to the shareholders in June 2002.

No transfer to the statutory reserve fund or the statutory public welfare fund has been made from the net profit for the six months period. In accordance with the provisions of the Company’s Articles of Association, such transfer will be proposed by the directors after the end of each financial year for shareholders’ approval at the general meeting.

## 7. EARNINGS PER SHARE

The calculation of the basic and diluted earnings per share for the period ended 30th June, 2002 is based on the following data:

### Earnings

	<b>1.1.2002 to 30.6.2002</b>	<b>1.1.2001 to 30.6.2001</b>
	<i>RMB'000</i>	<i>RMB'000</i>
Net profit for the period and earnings for the purpose of basic earnings per share	59,417	171,650
Effect of dilutive potential shares:		
3.5% convertible bonds due in 2002	<u>1,175</u>	<u>7,861</u>
Earnings for the purpose of diluted earnings per share	<u><u>60,592</u></u>	<u><u>179,511</u></u>

### Number of shares

	<b>30.6.2002</b>	<b>30.6.2001</b>
	<i>'000</i>	<i>'000</i>
Weighted average number of shares for the purpose of basic earnings per share	2,429,455	2,003,545
Effect of dilutive potential shares:		
3.5% convertible bonds due in 2002	26,869	185,631
Option granted to 慶鈴汽車(集團)有限公司 (“Qingling Group”), the Company’s ultimate holding company	<u>25,944</u>	<u>189,175</u>
Weighted average number of shares for the purpose of diluted earnings per share	<u><u>2,482,268</u></u>	<u><u>2,378,351</u></u>

## 8. ADDITIONS TO PROPERTY, PLANT AND EQUIPMENT

During the period, the Group incurred approximately RMB152,929,000 (for the six months ended 30th June, 2001: RMB44,687,000) on additions to property, plant and equipment to maintain its continuing business.

## 9. TRADE RECEIVABLES, DEPOSITS AND PREPAYMENTS

At the balance sheet date, the balance of trade receivables, deposits and prepayments included the amounts due from Qingling Group and certain associates and subsidiaries of Qingling Group as follows:

	<b>30.6.2002</b>	<b>31.12.2001</b>
	<i>RMB'000</i>	<i>RMB'000</i>
Qingling Group	—	30,189
Associates of Qingling Group	4,912	—
Subsidiaries of Qingling Group	<u>19,281</u>	<u>—</u>
	<u>24,193</u>	<u>30,189</u>

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

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

	<b>30.6.2002</b>	<b>31.12.2001</b>
	<i>RMB'000</i>	<i>RMB'000</i>
Within 3 months	460,188	543,129
Between 3 to 6 months	90,165	86,811
Between 7 to 12 months	63,308	93,423
Between 1 to 2 years	11,021	21,498
Over 2 years	<u>6,484</u>	<u>31,586</u>
	<u>631,166</u>	<u>776,447</u>

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 aged analysis of bills receivables is as follows:

	<b>30.6.2002</b>	<b>31.12.2001</b>
	<i>RMB'000</i>	<i>RMB'000</i>
Within 1 month	109,009	119,781
Between 1 to 2 months	81,493	114,550
Between 2 to 3 months	92,627	102,650
Between 4 to 6 months	<u>111,582</u>	<u>209,455</u>
	<u>394,711</u>	<u>546,436</u>

All the above bills receivables are guaranteed by banks and their expiry dates ranged from 30 to 180 days.

## 11. SHARE CAPITAL

On 22nd January, 2002 (the “Maturity Date”), the 3.5% convertible bonds of the Company (“Convertible Bonds”) expired and the conversion price of the Convertible Bonds was reset to HK\$3.15 per H Share, being 70% of the conversion price of the Convertible Bonds in effect on the same date (the “Final Conversion Price”). As the manager of the Convertible Bonds had, at the time of issue of the Convertible Bonds, exercised the option to irrevocably convert any remaining Convertible Bonds on the Maturity Date, the principal amount of the Convertible Bonds in the sum of US\$94,263,000 on the Maturity Date had accordingly been automatically converted into 231,587,731 H Shares at the Final Conversion Price.

Additionally, immediately at the time when Qingling Group’s percentage of shareholding in the Company has dropped to approximately 49.88% on the Maturity Date as a result of the above conversion, Qingling Group has exercised its entitled right under the Qingling Group Option Agreement to subscribe for 223,616,403 Domestic Shares for cash also at the Final Conversion Price. Upon the subsequent allotment of the Domestic Shares by the Company to Qingling Group, the percentage of shareholdings of Qingling Group in the enlarged share capital of the Company has been restored to 50.1%.

## 12. 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:

	<b>30.6.2002</b>	<b>31.12.2001</b>
	<i>RMB'000</i>	<i>RMB'000</i>
Qingling Group	2,799	—
Associates of Qingling Group	—	9,406
Subsidiaries of Qingling Group	<u>4,268</u>	<u>7,224</u>
	<u>7,067</u>	<u>16,630</u>

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

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

	<b>30.6.2002</b>	<b>31.12.2001</b>
	<i>RMB'000</i>	<i>RMB'000</i>
Within 3 months	442,898	495,486
Between 3 to 6 months	37,164	92,856
Between 7 to 12 months	2,734	3,558
Over 12 months	<u>11,434</u>	<u>10,344</u>
	<u>494,230</u>	<u>602,244</u>

### 13. RELATED PARTY TRANSACTIONS

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

#### (a) Qingling Group

Type of transactions	Pricing policies	1.1.2002 to 30.6.2002 RMB'000	1.1.2001 to 30.6.2001 RMB'000
Purchases of automobile parts	At cost plus a maximum mark-up of 10%	14,370	19,236
Supply of parts and raw materials for the manufacture of automobile parts required by the Group	At cost	9,065	11,731
Income from renting of moulds and tooling equipment	Reimbursement of depreciation charge	1,599	2,003
Rental paid for letting of warehouse facilities	Fixed amount according to terms of the rental agreement	—	2,915
Purchase of plant and equipment	At cost	50,269	—
Sales of plant and equipment	At carrying value	3	4
Service fee expenses	Fixed amount according to terms of the service agreement	150	150
Service fee income	Cost reimbursement basis	<u>33</u>	<u>31</u>

#### (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	1.1.2002 to 30.6.2002 RMB'000	1.1.2001 to 30.6.2001 RMB'000
Purchases of automobile parts	At cost plus a maximum mark-up of 10%	22,493	25,751
Supply of parts and raw materials for the manufacture of automobile parts required by the Group	At cost	2,264	1,941
Sales of plant and equipment	At carrying value	—	180



### 13. RELATED PARTY TRANSACTIONS (Cont'd)

(c) 重慶慶鈴鍛造有限公司, a company in which Qingling Group has a 55.4% interest

Type of transactions	Pricing policies	1.1.2002 to 30.6.2002 RMB'000	1.1.2001 to 30.6.2001 RMB'000
Purchases of automobile parts	At cost plus a maximum mark-up of 12%	16,633	20,861
Supply of parts and raw materials for the manufacture of automobile parts required by the Group	At cost	594	758

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

Type of transactions	Pricing policies	1.1.2002 to 30.6.2002 RMB'000	1.1.2001 to 30.6.2001 RMB'000
Purchases of automobile parts	At comparable market price	92,439	105,846
Supply of parts and raw materials for the manufacture of automobile parts required by the Group	At cost	40,820	45,908

(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	1.1.2002 to 30.6.2002 RMB'000	1.1.2001 to 30.6.2001 RMB'000
Purchases of automobile parts	At comparable market price	12,404	24,888
Supply of parts and raw materials for the manufacture of automobile parts required by the Group	At cost	2,853	4,436

### 13. RELATED PARTY TRANSACTIONS (Cont'd)

(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	1.1.2002 to 30.6.2002 <i>RMB'000</i>	1.1.2001 to 30.6.2001 <i>RMB'000</i>
Purchases of automobile parts	At comparable market price	15,024	21,535
Supply of parts and raw materials for the manufacture of automobile parts required by the Group	At cost	7,794	7,709

(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	1.1.2002 to 30.6.2002 <i>RMB'000</i>	1.1.2001 to 30.6.2001 <i>RMB'000</i>
Purchases of automobile parts	At cost plus a maximum mark-up of 12%	3,918	4,114
Supply of parts and raw materials for the manufacture of automobile parts required by the Group	At cost	286	559

### 14. CAPITAL COMMITMENTS

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

	30.6.2002 <i>RMB'000</i>	31.12.2001 <i>RMB'000</i>
Contracted for but not provided in the financial statements in respect of purchase of property, plant and equipment	152,348	163,337

The Group had no significant capital commitments authorised but not contracted for at 30th June, 2002 and 31st December, 2001.

At the balance sheet date, the Company was committed to contribute approximately RMB42,130,000 (31st December, 2001: RMB42,128,000) in connection with unpaid capital investment in a subsidiary.

## 15. CONTINGENT LIABILITIES

At the balance sheet date, the Group did not have any significant contingent liabilities (31st December, 2001: nil).

## 16. 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

	<b>1.1.2002 to 30.6.2002</b>	<b>1.1.2001 to 30.6.2001</b>
	<i>RMB'000</i>	<i>RMB'000</i>
Net profit for the period as per financial statements prepared under accounting principles generally accepted in Hong Kong	59,417	171,650
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	<u>361</u>	<u>361</u>
Net profit for the period as per financial statements prepared under PRC accounting standards and regulations	<u><u>59,056</u></u>	<u><u>171,289</u></u>

### Impact on condensed consolidated balance sheet

	<b>30.6.2002</b>	<b>31.12.2001</b>
	<i>RMB'000</i>	<i>RMB'000</i>
Net assets as per financial statements prepared under accounting principles generally accepted in Hong Kong	6,668,092	5,205,232
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	12,841	13,202
Less: Proposed dividend regarded as a separate component of the shareholders' equity under accounting principles generally accepted in Hong Kong but recognised as a liability under PRC accounting standards and regulations	<u>—</u>	<u>(124,113)</u>
Net assets as per financial statements prepared under PRC accounting standards and regulations	<u><u>6,680,933</u></u>	<u><u>5,094,321</u></u>

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.