

## **INTERIM DIVIDEND**

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The directors do not recommend the payment of an interim dividend for 2002 (for the six months ended 30th June, 2001: nil).

## **REVIEW OF OPERATIONS FOR THE FIRST HALF OF THE YEAR**

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The competition in domestic automobile market becomes more vigorous after the PRC has access to the World Trade Organisation (“WTO”). Facing uncontrollable challenges by medium-to low-end rivals by way of “imitation”, “quality downgrading” and “price cutting”... etc., the Company still dedicated to develop its core competitiveness and enforced its foundation for further development, and consequently achieved a hard-won result — production/sales volume of 15,482 vehicles, turnover of RMB1.48 billion and profit after taxation of RMB59 million.

The measures taken since the second half of the previous year continued to be strengthened in the first half of this year and brought significant results in return: a larger growth rate was achieved in N and F Series light-duty and heavy-duty trucks, and a constant growth was noted in major markets such as Guangdong and Zhejiang. The market order has been re-formulated, a group of agents with healthy organisation structure has grown up rapidly, and new progress has been re-achieved in the development of direct customers in key industries, all these indicated that the measures adopted by the Company have been accepted by the market and have established a good foundation for development.

1. Having capitalised on the dominant position of Isuzu commercial vehicles and enhancing the market development for N and F Series key products, sales of N Series amounted to 9,853 vehicles, representing a 25% increase as compared with the previous period; whereas sales of F Series amounted to 295 vehicles; and key customer groups of organisation in the sectors of oil field, post, finance, tobacco transportation and others have been developed;
2. Having strengthened the service support to agents and customers, new agents with healthy organisation structure were fostered; having developed the corporate image and product promotion through various exhibitions and activities, the market position was enhanced; having further regulated the market, the confidence of agents and customers was boosted;
3. Having developed an integrated operational system from development, manufacturing, to sales and after-sales services; and having quickly responded to and satisfied the customer’s individual requirement in a cost effective way, the Company’s competitiveness was enhanced;

4. Having improved technology and upgraded products' technical quality standards and technology development capabilities; having intensified internal management control on consumption and costs; having devoted in staff training on the improvement of their skills and technical standards, the corporation develop more rapidly.

## **OUTLOOK**

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Following the PRC's access to the WTO and the implementation of exploration and development of western zone strategy, together with increasing users' demand on the technical functions of the products, environmental protection and energy conservation, etc., new development opportunities arose for the quality commercial vehicles. The N and F Series Isuzu trucks currently manufactured by the Company have an obvious leading position in terms of technology as compared with the products manufactured by the rivals. Moreover, the Company possesses a manufacturing system which is able to satisfy the special requirements of individual user, hence it can satisfy market demands more rapidly. On the other hand, the T and U Series have certain competitiveness owing to their outstanding advantages in terms of functions and prices. The Company is confident of its development in the second half of the year and will continue to carry out structural adjustment to bring the competitive strengths of N and F Series trucks, for commercial purpose, and T and U Series, for carrying both passengers and goods, to full extent.

1. To continue the improvement on the product's technology standards and extend its leading position to rivals in respect of the environmental protection, energy conservation, and commodity functions, etc..
2. To grasp the opportunities in the exploration and development of western zone, construction of infrastructure, and major projects and industries development, so as to develop key customer groups and explore new markets.
3. To strengthen the efforts in structural adjustments and increase the production and sales volume of products with appropriate marketing strategy and strong profitability.
4. To continue the implementation of strict internal control and management and promote technical improvement, quality costs, staff training, etc. in order to improve the overall corporation's competitiveness.

## PREFERENTIAL TREATMENTS FOR CONSOLIDATED INCOME TAX AND LOCAL TAX

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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

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As at 30th June, 2002, 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

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The Group did not sell any staff quarters to its employees during the six months ended 30th June, 2002.

## SHAREHOLDING STRUCTURE

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I. As at 30th June, 2002, the entire share capital of the Company comprised 2,482,268,268 shares, including:

	<b>Number of Shares</b>	<b>Percentage of total number of issued shares</b>
Domestic Shares	1,243,616,403 shares	50.10%
Foreign Shares (H Shares)	1,238,651,865 shares	49.90%

II. Major shareholder:

As at 30th June, 2002, shareholder having an interest in 10% or more of the relevant class of 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:

<b>Name of shareholder</b>	<b>Class of shares</b>	<b>Number of shares held</b>	<b>Percentage of the relevant class of share capital</b>	<b>Percentage of entire share capital</b>
Qingling Group	Domestic Shares	1,243,616,403 shares	100%	50.10%

## **DIRECTORS’ AND SUPERVISORS’ INTERESTS IN SHARES**

As at 30th June, 2002, 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 corporations 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, 2002.

## **CODE OF BEST PRACTICE**

The Company has not established an audit committee (the “Audit Committee”) to review and supervise the Company’s financial reporting process 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 of Hong Kong Limited (the “Stock Exchange”). Since its establishment, the Company has set up a Supervisory Committee carries out the duties and functions similar to those of the Audit Committee. The differences are that the Supervisory Committee 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 Supervisory Committee is responsible to shareholders in the General Meeting instead of the Board of Directors, whereas members of the 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, 2002, in compliance with the Code of Best Practice.