

NOTES TO THE CONDENSED FINANCIAL STATEMENTS

For the six months ended 30th June, 2003

1. ACCOUNTING POLICIES

The condensed consolidated financial statements have been prepared under the historical cost convention and in accordance with Statement of Standard Accounting Practice (“SSAP”) No. 25 “Interim financial reporting” issued by The Hong Kong Society of Accountants (“HKSA”) and with the applicable disclosure requirements of Appendix 16 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited.

In the current period, the Group has adopted SSAP No. 12 (Revised) “Accounting of income taxes” (“SSAP 12 (Revised)”), for the first time, issued by the HKSA. SSAP 12 (Revised) has introduced a new basis of accounting for income taxes (including both current tax and deferred tax) and additional disclosure requirements which have been adopted in the condensed financial statements, but has had no significant impact on the results of the current or prior periods.

Other than the above, the accounting policies adopted are consistent with those followed in the Group’s annual audited financial statements for the year ended 31st December, 2002.

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, 2003 is presented below:

	Light-duty trucks	Multi-purposes vehicles	Pick-up trucks	Heavy-duty trucks	Other vehicles	Automobile parts and accessories	Consolidated
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Turnover	<u>931,805</u>	<u>159,391</u>	<u>558,816</u>	<u>49,923</u>	<u>—</u>	<u>17,177</u>	<u>1,717,112</u>
Result							
Segment result	<u>45,450</u>	<u>19,248</u>	<u>38,970</u>	<u>512</u>	<u>(4,698)</u>	<u>4,218</u>	103,700
Unallocated corporate expenses							(15,773)
Finance costs, net of interest income							<u>(7,156)</u>
Profit before taxation							80,771
Taxation							<u>(11,895)</u>
Profit before minority interests							68,876
Minority interests							<u>(542)</u>
Net profit for the period							<u>68,334</u>

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

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, 2002: less than 1%).

3. PROFIT FROM OPERATIONS

	1.1.2003 to 30.6.2003 <i>RMB'000</i>	1.1.2002 to 30.6.2002 <i>RMB'000</i>
Profit from operations has been arrived at after charging:		
Allowance for obsolete inventories	1,944	—
Allowance for bad and doubtful debts	9,802	—
Amortisation of intangible assets	11,296	10,987
Depreciation and amortisation of property, plant and equipment	92,119	64,634
and after crediting:		
Interest income from bank deposits and balances	<u>14,828</u>	<u>14,669</u>

4. FINANCE COSTS

	1.1.2003 to 30.6.2003 <i>RMB'000</i>	1.1.2002 to 30.6.2002 <i>RMB'000</i>
Interest expenses on bank borrowings wholly repayable within five years	19,983	51,135
Interest expense on convertible bonds	—	2,352
Less: Interest capitalised in construction in progress	<u>—</u>	<u>(969)</u>
	<u>19,983</u>	<u>52,518</u>
Amortisation of direct issuance costs of convertible bonds	—	260
Less: Amount capitalised in construction in progress	<u>—</u>	<u>(107)</u>
	<u>—</u>	<u>153</u>
Other financial expenses	<u>2,001</u>	<u>2,315</u>
Total finance costs	<u><u>21,984</u></u>	<u><u>54,986</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 an economic open zone along the Great River. 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, 2002: nil).

No deferred taxation has been provided as there are no significant temporary differences at the balance sheet date.

The charge for the period can be reconciled to the profit per condensed consolidated income statement as follows:

	1.1.2003 to 30.6.2003	1.1.2002 to 30.6.2002
	<i>RMB'000</i>	<i>RMB'000</i>
Profit before taxation	<u>80,771</u>	<u>69,525</u>
Tax at the applicable tax rate of 15%	12,116	10,429
Tax effect of expenses that are not deductible in determining taxable profit	4	58
Tax effect of income that are not taxable in determining taxable profit	(229)	(53)
Effect of different tax rates of subsidiaries	<u>4</u>	<u>58</u>
Tax expenses for the period	<u>11,895</u>	<u>10,492</u>

6. APPROPRIATIONS

The directors have resolved not to declare an interim dividend for the six months ended 30th June, 2003 (for the six months ended 30th June, 2002: nil).

On 22nd April, 2003, the directors proposed a 2002 final dividend of RMB0.05 per share in cash for the year ended 31st December, 2002. Accordingly, the 2002 final dividend of approximately RMB124,113,000 was paid to the shareholders in June 2003.

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 shareholders' general meeting.

7. EARNINGS PER SHARE

The calculation of the basic and diluted earnings per share for the period ended 30th June, 2003 is based on the following data:

Earnings

	1.1.2003 to 30.6.2003	1.1.2002 to 30.6.2002
	<i>RMB'000</i>	<i>RMB'000</i>
Net profit for the period and earnings for the purpose of basic earnings per share	<u>68,334</u>	59,417
Effect of dilutive potential shares:		
3.5% convertible bonds due in 2002	N/A	<u>1,175</u>
Earnings for the purpose of diluted earnings per share	N/A	<u>60,592</u>

Number of shares

	30.6.2003	30.6.2002
	<i>'000</i>	<i>'000</i>
Weighted average number of shares for the purpose of basic earnings per share	<u>2,482,268</u>	2,429,455
Effect of dilutive potential shares:		
3.5% convertible bonds due in 2002	N/A	26,869
Option granted to 慶鈴汽車(集團)有限公司 ("Qingling Group"), the Company's ultimate holding company	N/A	<u>25,944</u>
Weighted average number of shares for the purpose of diluted earnings per share	N/A	<u>2,482,268</u>

8. ADDITIONS TO PROPERTY, PLANT AND EQUIPMENT

During the period, the Group incurred approximately RMB27,828,000 (for the six months ended 30th June, 2002: RMB152,929,000) 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 an associate and certain subsidiaries of Qingling Group as follows:

	30.6.2003 <i>RMB'000</i>	31.12.2002 <i>RMB'000</i>
Qingling Group	—	11,717
Subsidiaries of Qingling Group	6,440	2,368
An associate of Qingling Group	4,940	—
	<u>11,380</u>	<u>14,085</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:

	30.6.2003 <i>RMB'000</i>	31.12.2002 <i>RMB'000</i>
Within 3 months	160,659	271,478
Between 3 to 6 months	64,539	95,395
Between 7 to 12 months	55,698	31,571
Between 1 to 2 years	42,183	31,691
Over 2 years	16,057	6,493
	<u>339,136</u>	<u>436,628</u>

The Group allows 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:

	30.6.2003	31.12.2002
	<i>RMB'000</i>	<i>RMB'000</i>
Within 1 month	119,122	119,536
Between 1 to 2 months	73,584	83,791
Between 2 to 3 months	80,941	72,276
Between 4 to 6 months	<u>142,139</u>	<u>106,385</u>
	<u>415,786</u>	<u>381,988</u>

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

11. SHARE CAPITAL

There was no change in the registered, issued and fully paid share capital of the Company during the 6-month period ended 30th June, 2003.

During the year ended 31st December, 2002, the 3.5% convertible bonds of the Company (“Convertible Bonds”) expired on 22nd January, 2002 (the “Maturity Date”) 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 an associate and certain subsidiaries of Qingling Group as follows:

	30.6.2003	31.12.2002
	<i>RMB'000</i>	<i>RMB'000</i>
Qingling Group	65,894	—
Subsidiaries of Qingling Group	3,282	9,853
An associate of Qingling Group	<u>—</u>	<u>23,238</u>
	<u>69,176</u>	<u>33,091</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:

	30.6.2003	31.12.2002
	<i>RMB'000</i>	<i>RMB'000</i>
Within 3 months	459,806	424,439
Between 3 to 6 months	72,139	62,055
Between 7 to 12 months	348	2,133
Over 12 months	<u>11,954</u>	<u>13,303</u>
	<u>544,247</u>	<u>501,930</u>

13. BANK LOANS

During the period ended 30th June, 2003, the Group has raised RMB615,000,000 (30th June, 2002: RMB1,340,000,000) new bank loans and repaid RMB675,000,000 (30th June, 2002: RMB1,340,000,000) bank loans.

14. 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	1.1.2003 to 30.6.2003 <i>RMB'000</i>	1.1.2002 to 30.6.2002 <i>RMB'000</i>
Purchases of automobile parts	At cost plus a maximum mark-up of 10%	17,412	14,370
Supply of parts and raw materials for the manufacture of automobile parts required by the Group	At cost	12,501	9,065
Income from renting of moulds and tooling equipment	Reimbursement of depreciation charge	2,158	1,599
Sales of plant and equipment	At carrying value	566	3
Service fee expenses	Fixed amount according to terms of the service agreement	150	150
Purchase of plant and equipment	At cost	—	50,269

(b) 重慶慶鈴鑄造有限公司, a company in which Qingling Group has a 60.38% interest

Type of transactions	Pricing policies	1.1.2003 to 30.6.2003 <i>RMB'000</i>	1.1.2002 to 30.6.2002 <i>RMB'000</i>
Purchases of automobile parts	At cost plus a maximum mark-up of 10%	25,209	22,493
Supply of parts and raw materials for the manufacture of automobile parts required by the Group	At cost	2,387	2,264

14. RELATED PARTY TRANSACTIONS (Cont'd)

(c) 重慶慶鈴鍛造有限公司, a company in which Qingling Group has a 55.03% interest

Type of transactions	Pricing policies	1.1.2003 to 30.6.2003 RMB'000	1.1.2002 to 30.6.2002 RMB'000
Purchases of automobile parts	At cost plus a maximum mark-up of 12%	22,151	16,633
Supply of parts and raw materials for the manufacture of automobile parts required by the Group	At cost	640	594

(d) 重慶慶鈴車橋有限公司, a company in which Qingling Group has a 49.64% interest

Type of transactions	Pricing policies	1.1.2003 to 30.6.2003 RMB'000	1.1.2002 to 30.6.2002 RMB'000
Purchases of automobile parts	At comparable market price	141,177	92,439
Supply of parts and raw materials for the manufacture of automobile parts required by the Group	At cost	52,063	40,820

(e) 重慶慶鈴日發座椅有限公司, a company in which Qingling Group has a 50.80% interest

Type of transactions	Pricing policies	1.1.2003 to 30.6.2003 RMB'000	1.1.2002 to 30.6.2002 RMB'000
Purchases of automobile parts	At comparable market price	22,146	12,404
Supply of parts and raw materials for the manufacture of automobile parts required by the Group	At cost	3,216	2,853

14. RELATED PARTY TRANSACTIONS (Cont'd)

(f) 重慶慶鈴塑料有限公司, a company in which Qingling Group has a 53.15% interest

Type of transactions	Pricing policies	1.1.2003	1.1.2002
		to 30.6.2003	to 30.6.2002
		RMB'000	RMB'000
Purchases of automobile parts	At comparable market price	26,525	15,024
Supply of parts and raw materials for the manufacture of automobile parts required by the Group	At cost	10,366	7,794
		<u> </u>	<u> </u>

(g) 重慶慶鈴鑄鋁有限公司, a company in which Qingling Group has a 58.40% interest

Type of transactions	Pricing policies	1.1.2003	1.1.2002
		to 30.6.2003	to 30.6.2002
		RMB'000	RMB'000
Purchases of automobile parts	At cost plus a maximum mark-up of 12%	3,185	3,918
Supply of parts and raw materials for the manufacture of automobile parts required by the Group	At cost	190	286
		<u> </u>	<u> </u>

15. CAPITAL COMMITMENTS

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

	30.6.2003	31.12.2002
	RMB'000	RMB'000
Contracted for but not provided in the financial statements in respect of purchase of property, plant and equipment	<u>75,669</u>	<u>83,214</u>

The Group had no significant capital commitments authorised but not contracted for at 30th June, 2003 and 31st December, 2002.

16. CONTINGENT LIABILITIES

At the balance sheet date, the Group did not have any significant contingent liabilities (31st December, 2002: nil).

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

	1.1.2003 to 30.6.2003 <i>RMB'000</i>	1.1.2002 to 30.6.2002 <i>RMB'000</i>
Net profit for the period as per financial statements prepared under accounting principles generally accepted in Hong Kong	68,334	59,417
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)
Interest income earned by a subsidiary of the Company which has not yet commenced business — not included in the income statement prepared under PRC accounting standards and regulations net of minority interests RMB573,000 (30th June, 2002: nil)	<u>(596)</u>	<u>—</u>
Net profit for the period as per financial statements prepared under PRC accounting standards and regulations	<u><u>67,377</u></u>	<u><u>59,056</u></u>

17. **DIFFERENCES BETWEEN ACCOUNTING PRINCIPLES GENERALLY ACCEPTED IN HONG KONG AND PRC ACCOUNTING STANDARDS AND REGULATIONS AS APPLICABLE TO THE GROUP (Cont'd)**

Impact on condensed consolidated balance sheet

	30.6.2003	31.12.2002
	<i>RMB'000</i>	<i>RMB'000</i>
Net assets as per financial statements prepared under accounting principles generally accepted in Hong Kong	6,699,721	6,755,500
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	12,119	12,480
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	—	(124,113)
Interest income of a subsidiary which has not yet commenced business as mentioned above, not included in the income statement prepared under PRC accounting standards and regulations, net of minority interests RMB2,397,000 (31st December, 2002: RMB1,824,000)	<u>(2,495)</u>	<u>(1,899)</u>
Net assets as per financial statements prepared under PRC accounting standards and regulations	<u><u>6,709,345</u></u>	<u><u>6,641,968</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.