



# **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)

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## **2004 Interim Report**

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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 incorporated in the People's Republic of China with limited liability)*

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## **Introduction**

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

## **Respective responsibilities of directors and auditors**

The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited require the preparation of an interim financial report to be in compliance with Statement of Standard Accounting Practice No. 25 “Interim financial reporting” issued by the Hong Kong Society of Accountants and the relevant provisions thereof. The interim financial report is the responsibility of, and has been approved by, the directors.

It is our responsibility to form an independent conclusion, based on our review, on the interim financial report and to report our conclusion solely to you, as a body, in accordance with our agreed terms of engagement, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

## **Review work performed**

We conducted our review in accordance with Statement of Auditing Standards No. 700 “Engagements to review interim financial reports” 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, 2004.

**DELOITTE TOUCHE TOHMATSU**

*Certified Public Accountants*

Hong Kong

25th August, 2004

# CONDENSED CONSOLIDATED INCOME STATEMENT

For the six months ended 30th June, 2004

		<b>1.1.2004 to 30.6.2004 (Unaudited) RMB' 000</b>	<b>1.1.2003 to 30.6.2003 (Unaudited) RMB' 000</b>
	<i>Notes</i>		
Turnover		1,639,852	1,717,112
Cost of sales		<u>(1,391,199)</u>	<u>(1,384,946)</u>
Gross profit		248,653	332,166
Other operating income		31,595	37,475
Distribution costs		(139,727)	(209,867)
Administrative expenses		<u>(45,745)</u>	<u>(57,019)</u>
Profit from operations	4	94,776	102,755
Finance costs	5	<u>(17,358)</u>	<u>(21,984)</u>
Profit before taxation		77,418	80,771
Taxation	6	<u>(11,335)</u>	<u>(11,895)</u>
Profit before minority interests		66,083	68,876
Minority interests		<u>(754)</u>	<u>(542)</u>
Net profit for the period		<u><u>65,329</u></u>	<u><u>68,334</u></u>
Basic earnings per share	8	<u><u>RMB0.0263</u></u>	<u><u>RMB0.0275</u></u>

# CONDENSED CONSOLIDATED BALANCE SHEET

At 30th June, 2004

		<b>30.6.2004</b>	<b>31.12.2003</b>
		<b>(Unaudited)</b>	<b>(Audited)</b>
	<i>Notes</i>	<i>RMB'000</i>	<i>RMB'000</i>
<b>ASSETS</b>			
<b>Non-current assets</b>			
Property, plant and equipment	9	3,832,482	3,924,752
Intangible assets		<u>111,501</u>	<u>123,870</u>
		<u>3,943,983</u>	<u>4,048,622</u>
<b>Current assets</b>			
Inventories		1,525,677	1,212,945
Trade receivables, deposits and prepayments	10	431,548	375,058
Bills receivables	11	438,970	476,504
Bank balances, deposits and cash		<u>2,298,994</u>	<u>2,348,874</u>
		<u>4,695,189</u>	<u>4,413,381</u>
<b>TOTAL ASSETS</b>		<u><u>8,639,172</u></u>	<u><u>8,462,003</u></u>

		<b>30.6.2004</b>	<b>31.12.2003</b>
		<b>(Unaudited)</b>	<b>(Audited)</b>
	<i>Notes</i>	<i>RMB'000</i>	<i>RMB'000</i>
<b>SHAREHOLDERS' EQUITY AND TOTAL LIABILITIES</b>			
<b>Capital and reserves</b>			
Share capital	12	2,482,268	2,482,268
Reserves		<u>4,247,902</u>	<u>4,306,686</u>
		<u>6,730,170</u>	<u>6,788,954</u>
<b>Minority interests</b>		<u>176,411</u>	<u>175,657</u>
<b>Current liabilities</b>			
Trade and other payables	13	940,786	963,397
Tax payable		6,805	8,995
Bank loans	14	<u>785,000</u>	<u>525,000</u>
		<u>1,732,591</u>	<u>1,497,392</u>
		<u><u>8,639,172</u></u>	<u><u>8,462,003</u></u>

# CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30th June, 2004

	Share capital <i>RMB'000</i>	Share premium <i>RMB'000</i>	Capital reserve <i>RMB'000</i>	Statutory surplus reserve fund, statutory public welfare fund and discretionary surplus reserve fund <i>RMB'000</i>	Accumulated profits <i>RMB'000</i>	Dividend reserve <i>RMB'000</i>	Total <i>RMB'000</i>
At 1st January, 2003	2,482,268	1,764,905	572,239	650,759	1,161,216	124,113	6,755,500
Net profit for the period	—	—	—	—	68,334	—	68,334
2002 final dividend paid	—	—	—	—	—	(124,113)	(124,113)
At 30th June, 2003	<u>2,482,268</u>	<u>1,764,905</u>	<u>572,239</u>	<u>650,759</u>	<u>1,229,550</u>	<u>—</u>	<u>6,699,721</u>
At 1st January, 2004	2,482,268	1,764,905	572,239	682,168	1,163,261	124,113	6,788,954
Net profit for the period	—	—	—	—	65,329	—	65,329
2003 final dividend paid	—	—	—	—	—	(124,113)	(124,113)
At 30th June, 2004	<u>2,482,268</u>	<u>1,764,905</u>	<u>572,239</u>	<u>682,168</u>	<u>1,228,590</u>	<u>—</u>	<u>6,730,170</u>

# CONDENSED CONSOLIDATED CASH FLOW STATEMENT

For the six months ended 30th June, 2004

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	<b>1.1.2004 to 30.6.2004 (Unaudited) RMB'000</b>	<b>1.1.2003 to 30.6.2003 (Unaudited) RMB'000</b>
Net cash (outflow) inflow from operating activities	(252,290)	146,262
Net cash inflow (outflow) from investing activities	4,343	(32,180)
Net cash inflow (outflow) from financing activities	<u>198,067</u>	<u>(121,932)</u>
Decrease in cash and cash equivalents	(49,880)	(7,850)
Cash and cash equivalents at beginning of the period	<u>2,348,874</u>	<u>2,268,700</u>
Cash and cash equivalents at end of the period	<u><u>2,298,994</u></u>	<u><u>2,260,850</u></u>

# NOTES TO THE CONDENSED FINANCIAL STATEMENTS

*For the six months ended 30th June, 2004*

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## 1. BASIS OF PREPARATION

The condensed consolidated financial statements have been prepared in accordance with the applicable disclosure requirements of Appendix 16 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited and with Statement of Standard Accounting Practice No. 25 “Interim financial reporting”.

## 2. PRINCIPAL ACCOUNTING POLICIES

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

The accounting policies adopted are consistent with those followed in the preparation of the Group’s annual audited financial statements for the year ended 31st December, 2003.

## 3. 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

### 3. SEGMENT INFORMATION (Cont'd)

- (i) Segment information about these businesses for the period ended 30th June, 2004 is presented below:

	Light-duty trucks <i>RMB'000</i>	Multi-purposes vehicles <i>RMB'000</i>	Pick-up trucks <i>RMB'000</i>	Heavy-duty trucks <i>RMB'000</i>	Other vehicles <i>RMB'000</i>	Automobile parts and accessories <i>RMB'000</i>	Consolidated <i>RMB'000</i>
Turnover	<u>907,735</u>	<u>68,032</u>	<u>513,027</u>	<u>126,981</u>	<u>1,442</u>	<u>22,635</u>	<u>1,639,852</u>
Result							
Segment result	<u>60,478</u>	<u>(3,618)</u>	<u>22,758</u>	<u>9,340</u>	<u>175</u>	<u>2,383</u>	91,516
Unallocated corporate expenses							(12,451)
Finance costs, net of interest income							<u>(1,647)</u>
Profit before taxation							77,418
Taxation							<u>(11,335)</u>
Profit before minority interests							66,083
Minority interests							<u>(754)</u>
Net profit for the period							<u>65,329</u>

- (ii) Segment information about these businesses for the period ended 30th June, 2003 is presented below:

	Light-duty trucks <i>RMB'000</i>	Multi-purposes vehicles <i>RMB'000</i>	Pick-up trucks <i>RMB'000</i>	Heavy-duty trucks <i>RMB'000</i>	Other vehicles <i>RMB'000</i>	Automobile parts and accessories <i>RMB'000</i>	Consolidated <i>RMB'000</i>
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>

### 3. 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, 2003: less than 1%).

### 4. PROFIT FROM OPERATIONS

	<b>1.1.2004 to 30.6.2004</b>	<b>1.1.2003 to 30.6.2003</b>
	<i>RMB'000</i>	<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	4,029	9,802
Amortisation of intangible assets	12,369	11,296
Depreciation and amortisation of property, plant and equipment	102,557	92,119

and after crediting:

Interest income from bank deposits and balances	15,711	14,828
Reversal of allowance for obsolete inventories	<u>514</u>	<u>—</u>

### 5. FINANCE COSTS

	<b>1.1.2004 to 30.6.2004</b>	<b>1.1.2003 to 30.6.2003</b>
	<i>RMB'000</i>	<i>RMB'000</i>
Interest expenses on bank borrowings wholly repayable within five years	14,211	19,983
Other financial expenses	<u>3,147</u>	<u>2,001</u>
Total finance costs	<u>17,358</u>	<u>21,984</u>

## 6. 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 of Chongqing, 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, Enterprise Income Tax has been provided in the financial statements for one of the subsidiaries at 50% of the applicable tax rate as it is under the income tax relief. Another subsidiary of the Company has not yet commenced business and therefore no income tax has been provided.

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

	<b>1.1.2004 to 30.6.2004</b>	<b>1.1.2003 to 30.6.2003</b>
	<i>RMB'000</i>	<i>RMB'000</i>
Profit before taxation	<u>77,418</u>	<u>80,771</u>
Tax at the applicable tax rate of 15%	11,613	12,116
Tax effect of expenses that are not deductible in determining taxable profit	—	4
Tax effect of income that is not taxable in determining taxable profit	(266)	(229)
Effect of different tax rate of subsidiaries	<u>(12)</u>	<u>4</u>
Tax expenses for the period	<u>11,335</u>	<u>11,895</u>

## 7. APPROPRIATIONS

The directors have resolved not to declare an interim dividend for the six months ended 30th June, 2004 (for the six months ended 30th June, 2003: nil).

On 27th April, 2004, the directors proposed a 2003 final dividend of RMB0.05 per share in cash for the year ended 31st December, 2003. Accordingly, the 2003 final dividend of approximately RMB124,113,000 was paid to the shareholders in June 2004.

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.

## 8. EARNINGS PER SHARE

The calculation of the basic earnings per share for the period ended 30th June, 2004 is based on the following data:

### Earnings

	<b>1.1.2004 to 30.6.2004</b>	<b>1.1.2003 to 30.6.2003</b>
	<i>RMB'000</i>	<i>RMB'000</i>
Net profit for the period and earnings for the purpose of basic earnings per share	<u>65,329</u>	<u>68,334</u>

### Number of shares

	<b>30.6.2004</b>	<b>30.6.2003</b>
	<i>'000</i>	<i>'000</i>
Number of shares for the purpose of basic earnings per share	<u>2,482,268</u>	<u>2,482,268</u>

## 9. ADDITIONS TO PROPERTY, PLANT AND EQUIPMENT

During the period, the Group incurred approximately RMB10,627,000 (for the six months ended 30th June, 2003: RMB27,828,000) on additions to property, plant and equipment to maintain its continuing business.

## 10. TRADE RECEIVABLES, DEPOSITS AND PREPAYMENTS

At the balance sheet date, the balance of trade receivables, deposits and prepayments included the amounts due from certain subsidiaries of Qingling Motors (Group) Co. Ltd. (“Qingling Group”) as follows:

	<b>30.6.2004</b>	<b>31.12.2003</b>
	<i>RMB'000</i>	<i>RMB'000</i>
Subsidiaries of Qingling Group	<u>5,453</u>	<u>1,840</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>30.6.2004</b>	<b>31.12.2003</b>
	<i>RMB'000</i>	<i>RMB'000</i>
Within 3 months	276,123	189,331
Between 3 to 6 months	70,167	72,445
Between 7 to 12 months	9,602	25,702
Between 1 to 2 years	26,831	26,756
Over 2 years	<u>4,183</u>	<u>5,676</u>
	<u>386,906</u>	<u>319,910</u>

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

## 11. BILLS RECEIVABLES

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

	<b>30.6.2004</b>	<b>31.12.2003</b>
	<i>RMB'000</i>	<i>RMB'000</i>
Within 1 month	94,283	134,748
Between 1 to 2 months	90,335	155,601
Between 2 to 3 months	109,477	66,241
Between 4 to 6 months	<u>144,875</u>	<u>119,914</u>
	<u>438,970</u>	<u>476,504</u>

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

## 12. SHARE CAPITAL

There was no change in the registered, issued and fully paid share capital of the Company during both periods.

## 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 an associate and certain subsidiaries of Qingling Group as follows:

	<b>30.6.2004</b>	<b>31.12.2003</b>
	<i>RMB'000</i>	<i>RMB'000</i>
Qingling Group	57,712	6,817
Subsidiaries of Qingling Group	2,095	14,981
An associate of Qingling Group	<u>5,390</u>	<u>4,135</u>
	<u><u>65,197</u></u>	<u><u>25,933</u></u>

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

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

	<b>30.6.2004</b>	<b>31.12.2003</b>
	<i>RMB'000</i>	<i>RMB'000</i>
Within 3 months	417,231	412,182
Between 3 to 6 months	6,937	42,643
Between 6 to 12 months	519	19
Over 12 months	<u>9,166</u>	<u>9,851</u>
	<u><u>433,853</u></u>	<u><u>464,695</u></u>

## 14. BANK LOANS

During the period ended 30th June, 2004, the Group has raised RMB565,000,000 (30th June, 2003: RMB615,000,000) new bank loans and repaid RMB305,000,000 (30th June, 2003: RMB675,000,000) bank loans.

## 15. 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	1.1.2004	1.1.2003
		to 30.6.2004	to 30.6.2003
		RMB'000	RMB'000
Purchases of automobile parts	At cost plus a maximum mark-up of 10%	22,894	17,412
Supply of parts and raw materials for the manufacture of automobile parts required by the Group	At cost	11,118	12,501
Income from renting of moulds and tooling equipment	Reimbursement of depreciation charge	2,477	2,158
Service fee expenses	Fixed amount according to terms of the service agreement	150	150
Sales of plant and equipment	At carrying value	—	566
		<u>          </u>	<u>          </u>

### (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	1.1.2004	1.1.2003
		to 30.6.2004	to 30.6.2003
		RMB'000	RMB'000
Purchases of automobile parts	At cost plus a maximum mark-up of 10%	19,472	25,209
Supply of parts and raw materials for the manufacture of automobile parts required by the Group	At cost	2,875	2,387
Sales of plant and equipment	At carrying value	274	—
		<u>          </u>	<u>          </u>

15. 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	1.1.2004 to 30.6.2004 RMB'000	1.1.2003 to 30.6.2003 RMB'000
Purchases of automobile parts	At cost plus a maximum mark-up of 12%	17,472	22,151
Supply of parts and raw materials for the manufacture of automobile parts required by the Group	At cost	549	640
Sales of plant and equipment	At carrying value	27	—
		<u>          </u>	<u>          </u>

(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	1.1.2004 to 30.6.2004 RMB'000	1.1.2003 to 30.6.2003 RMB'000
Purchases of automobile parts	At comparable market price	109,179	141,177
Supply of parts and raw materials for the manufacture of automobile parts required by the Group	At cost	49,298	52,063
		<u>          </u>	<u>          </u>

(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	1.1.2004 to 30.6.2004 RMB'000	1.1.2003 to 30.6.2003 RMB'000
Purchases of automobile parts	At comparable market price	11,440	22,146
Supply of parts and raw materials for the manufacture of automobile parts required by the Group	At cost	2,517	3,216
		<u>          </u>	<u>          </u>

## 15. 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	1.1.2004	1.1.2003
		to 30.6.2004	to 30.6.2003
		RMB'000	RMB'000
Purchases of automobile parts	At comparable market price	20,192	26,525
Supply of parts and raw materials for the manufacture of automobile parts required by the Group	At cost	9,409	10,366
		<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	1.1.2004	1.1.2003
		to 30.6.2004	to 30.6.2003
		RMB'000	RMB'000
Purchases of automobile parts	At cost plus a maximum mark-up of 12%	2,238	3,185
Supply of parts and raw materials for the manufacture of automobile parts required by the Group	At cost	288	190
		<u>          </u>	<u>          </u>

## 16. CAPITAL COMMITMENTS

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

	30.6.2004	31.12.2003
	RMB'000	RMB'000
Contracted for but not provided in the financial statements in respect of purchase of property, plant and equipment	<u>2,418</u>	<u>3,917</u>

The Group had no significant capital commitments authorised but not contracted for at 30th June, 2004 and 31st December, 2003.

## 17. CONTINGENT LIABILITIES

At the balance sheet date, the Group did not have any significant contingent liabilities (31st December, 2003: nil).

**18. 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>1.1.2004 to 30.6.2004 <i>RMB'000</i></b>	<b>1.1.2003 to 30.6.2003 <i>RMB'000</i></b>
Net profit for the period as per financial statements prepared under accounting principles generally accepted in Hong Kong	65,329	68,334
Less: Amortisation of intangible assets — electricity usage rights and other miscellaneous intangible assets not included in the 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 RMB680,000 (for the six months ended 30th June, 2003: RMB573,000))	(708)	(596)
Write-off of long outstanding accounts payable which is credited to capital reserve in the financial statements prepared under PRC accounting standards and regulations	<u>(21)</u>	<u>—</u>
Net profit for the period as per financial statements prepared under PRC accounting standards and regulations	<u><u>64,239</u></u>	<u><u>67,377</u></u>

**18. 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**

	<b>30.6.2004</b>	<b>31.12.2003</b>
	<i>RMB'000</i>	<i>RMB'000</i>
Net assets as per financial statements prepared under accounting principles generally accepted in Hong Kong	6,730,170	6,788,954
Add: Electricity usage rights and other miscellaneous intangible assets, as mentioned above, net of amortisation, not included in the financial statements prepared under accounting principles generally accepted in Hong Kong	11,397	11,758
Less: 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 RMB4,072,000 (31st December, 2003: RMB3,392,000))	<u>(4,239)</u>	<u>(3,531)</u>
Net assets as per financial statements prepared under PRC accounting standards and regulations	<u><u>6,737,328</u></u>	<u><u>6,797,181</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.

## **INTERIM DIVIDEND**

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The directors have resolved not to declare an interim dividend for the six months ended 30th June, 2004 (for the six months ended 30th June, 2003: nil).

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

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Since the beginning of the year, China has strengthened the macroeconomic policy in order to stimulate economic growth and efficiency. From April onwards, the nationwide sales of vehicles has dropped at a rate of 11% per month. Nevertheless, the Company overcame such difficulties by continuing to develop and enhance its competitiveness, thus achieving hard-earned results. During the first half of the year, the Company's production and sales volume amounted to 14,900 vehicles, with a turnover of RMB1.64 billion and a profit after tax of RMB65 million.

1. The Company fully capitalized its competitive advantage by making logistic vehicles as target of commercial vehicle structure adjustment and marketing focus. The proportion of logistic vehicles in the N series increased to 64% from 57% of the corresponding period. The F series achieved a more significant growth with a sales volume of 405 vehicles, 1.8 times the figure of last year.
2. As the government stepped in to rectify the problem of vehicle "overloading" and raise environmental protection standards, the Company grasped the opportunity to intensify the promotion of its products. The Company organized over ten advertising forums in major provinces and cities across the country. During such forums, representatives from Isuzu Motors Ltd in Japan, clarified the false advertisement by imitators to Chinese users, and reiterated its strategic and cooperative partnership with Qingling. This has been well-received by the market and generated favourable response.
3. The Company will also continue to push forward technological advancement by boosting its core technologies in motoring and environmental protection, so as to increase the disparity between its products and imitation products. It will also enhance the competitiveness of its products by complying with the preference of Chinese users and improving product features.
4. New technologies and quality standards were introduced from overseas for the "Quality Enhancement" campaign in major manufacturing and administrative departments. The management standards of manufacturing, quality and equipment, as well as the quality of staff members, were enhanced, so as to strengthen the overall corporate competitiveness.

## **OUTLOOK**

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The increasing economic development, as well as the integrated administration of roads, traffic, safety and environmental protection in China creates rising market demand for high quality commercial vehicles. The Company possesses several outstanding advantages, such as the Isuzu commercial vehicles and a mainstream group of customers that represents market trends. The Company will develop new competitiveness through consistently implementing measures to promote product development, reduce cost, strengthen management and enhance sales capability.

1. The N and F series will become the highlighted products in order to explore the logistics vehicles market. The Company will develop and enhance its sales capability, and seek exclusive distributors of corresponding product lines, with a view of exploring key markets such as the Yangtze Delta, and developing new marketing space.
2. The Company will also strengthen its full cooperation with Isuzu Motors Ltd in Japan, to further enhance its technological standards and the competitiveness of its products, in order to stay ahead of its competitors.
3. The “Quality Enhancement” campaign will be implemented in full scale to consistently enhance management standards and competence of staff in order to strengthen the overall competitiveness.

The Company is completely confident about the second half of the year and the future. It will follow through its established policies and further implement various measures to strive for fruitful results.

## **FINANCIAL RESOURCES AND CASH FLOW SITUATION**

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Shareholders’ interest as at 30th June, 2004 decreased by 0.87% compared with that as at 31st December, 2003. This decrease was mainly due to the net profit for the period amounted to RMB65,329,000 and the payment of 2003 dividend RMB124,113,000.

Net borrowings of the Group as at 30th June, 2004 amounted to RMB785,000,000, which were mainly advanced from the bank. The Group’s current assets were mainly bank deposits and cash, inventories like raw materials and finished goods, bills receivables and trade receivables which amounted to RMB4,695,189,000, whereas current liabilities amounted to RMB1,732,591,000. As at 30th June, 2004, balance of bank deposits and cash amounted to RMB2,298,994,000.

As at 30th June, 2004, no assets had been pledged by the Group as security and the gearing ratio of the Group was 20.06%, calculated by dividing total liabilities over total assets. The Group did not have any significant contingent liabilities. The Group continued their prudent policy in managing foreign exchange risks through spot contracts and forward contracts in order to minimize foreign exchange risks.

## **PREFERENTIAL TREATMENTS FOR CONSOLIDATED INCOME TAX AND LOCAL TAX**

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The Company was subject to PRC Enterprise Tax at the rate of 24% under the Income Tax Law of the PRC for Enterprises with Foreign Investment and Foreign Enterprises in previous years. Pursuant to Clause 3, Section 2 of 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 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, 2004, the Group did not have any designated deposits or any time-deposits that were overdue but could not be collected upon maturity.

## **EMPLOYEES**

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As at 30th June, 2004, the Group has 2,987 employees. During the period, no material change is noted for the number of employees nor their remuneration policy. The Group actively provides various training to its staff of all levels.

## **SALE OF STAFF QUARTERS**

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For the six months ended 30th June, 2004, the Group had made no sale of any staff quarters to its employees.

## SHAREHOLDING STRUCTURE

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- (I) As at 30th June, 2004, the entire share capital of the Company comprised 2,482,268,268 shares, including:

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

- (II) Substantial shareholders

As at 30th June 2004, shareholders, other than a director, supervisor or chief executive of the Company having an interest in 5% or more of the relevant class of issued share capital of the Company as recorded in the register of interests in shares and short positions required to be kept by the Company pursuant to Section 336 of Securities and Futures Ordinance (“SFO”) were as follows:

Name of shareholders	Class of shares	Corporate Interests	Capacity	Percentage of the relevant class of share capital	Percentage of entire share capital
Qingling Motors (Group) Company Limited	Domestic shares	1,243,616,403 shares	Beneficial Owner	100%	50.10%
Isuzu Motors Ltd	Foreign shares (H Shares)	171,493,254 shares	Beneficial Owner	13.85%	6.91%

Save as disclosed above, the register required to be kept under Section 336 of the SFO showed that the Company had not been notified of any interests or short positions in the shears and underlying shares of the Company as at 30th June, 2004.

## **DIRECTORS', SUPERVISORS' AND CHIEF EXECUTIVE'S INTERESTS IN SHARES**

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As at 30th June, 2004, none of the directors, supervisors and chief executive of the Company had an interest or short positions in the shares, underlying shares or debentures of the Company or its associated corporations as defined under the SFO. None of the directors, supervisors and chief executive of the Company, their spouse or children under 18 had any rights to subscribe for equity or debt securities of the Company, nor has any of them exercised such rights.

## **PURCHASE, SALE AND REDEMPTION OF THE COMPANY'S LISTED SECURITIES**

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Neither the Company nor any of its subsidiaries has purchased, sold, redeemed or cancelled any of the Company's listed securities during the six months ended 30th June, 2004.

## **CODE OF BEST PRACTICE**

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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 carrying out 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' 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' 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 the six months ended 30th June, 2004 in compliance with the Code of Best Practice.

By Order of the Board  
**Wu Yun**  
*Chairman*

Chongqing, the PRC  
25th August, 2004