



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)

2005 Interim Report



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)

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 21.

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 Hong Kong Accounting Standard 34 “Interim financial reporting” issued by the Hong Kong Institute of Certified Public 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 700 “Engagements to review interim financial reports” issued by the Hong Kong Institute of Certified Public 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, 2005.

DELOITTE TOUCHE TOHMATSU

Certified Public Accountants

Hong Kong

24th August, 2005

CONDENSED CONSOLIDATED INCOME STATEMENT

For the six months ended 30th June, 2005

| | | 1.1.2005 to 30.6.2005 | 1.1.2004 to 30.6.2004 |
|--------------------------------|--------------|----------------------------------|----------------------------------|
| | | <i>RMB'000</i> | <i>RMB'000</i> |
| | <i>Notes</i> | (Unaudited) | (Unaudited) |
| Turnover | 3 | 1,610,331 | 1,639,852 |
| Cost of sales | | <u>(1,390,346)</u> | <u>(1,391,199)</u> |
| Gross profit | | 219,985 | 248,653 |
| Other operating income | | 19,643 | 31,595 |
| Selling and distribution costs | | (137,777) | (139,727) |
| Administrative expenses | | (43,766) | (45,745) |
| Finance costs | 4 | <u>(26,062)</u> | <u>(17,358)</u> |
| Profit before tax | 5 | 32,023 | 77,418 |
| Taxation | 6 | <u>(4,450)</u> | <u>(11,335)</u> |
| Profit for the period | | <u><u>27,573</u></u> | <u><u>66,083</u></u> |
| Attributable to: | | | |
| Equity holders of the Company | | 26,595 | 65,329 |
| Minority interest | | <u>978</u> | <u>754</u> |
| | | <u><u>27,573</u></u> | <u><u>66,083</u></u> |
| Basic earnings per share | 8 | <u><u>RMB0.0107</u></u> | <u><u>RMB0.0263</u></u> |

CONDENSED CONSOLIDATED BALANCE SHEET

At 30th June, 2005

| | | 30.6.2005 | 31.12.2004 |
|----------------------------------------------------------------------|--------------|-------------------------|-------------------------------|
| | | <i>RMB'000</i> | <i>RMB'000</i> |
| | <i>Notes</i> | (Unaudited) | (Audited and Restated) |
| ASSETS | | | |
| Non-current assets | | | |
| Property, plant and equipment | 9 | 3,601,912 | 3,692,346 |
| Intangible assets | | 91,093 | 99,957 |
| Deposit paid in respect of purchase of property, plant and equipment | | 22 | 6,229 |
| Prepaid lease payments | | <u>44,991</u> | <u>45,585</u> |
| | | <u>3,738,018</u> | <u>3,844,117</u> |
| Current assets | | | |
| Inventories | | 2,093,875 | 2,094,084 |
| Trade receivables, deposits and prepayments | 10 | 479,082 | 309,584 |
| Bills receivables | 11 | 470,586 | 316,824 |
| Prepaid lease payments | | 1,189 | 1,189 |
| Bank balances, deposits and cash | | <u>1,965,193</u> | <u>1,998,530</u> |
| | | <u>5,009,925</u> | <u>4,720,211</u> |
| TOTAL ASSETS | | <u><u>8,747,943</u></u> | <u><u>8,564,328</u></u> |

| | | 30.6.2005 | 31.12.2004 |
|-------------------------------------------------------------|--------------|-------------------------|-------------------------------|
| | | <i>RMB'000</i> | <i>RMB'000</i> |
| | <i>Notes</i> | (Unaudited) | (Audited and Restated) |
| SHAREHOLDERS' EQUITY AND LIABILITIES | | | |
| Capital and reserves | | | |
| Share capital | 12 | 2,482,268 | 2,482,268 |
| Reserves | | <u>4,194,987</u> | <u>4,292,503</u> |
| Equity attributable to equity holders of the Company | | <u>6,677,255</u> | <u>6,774,771</u> |
| Minority interests | | <u>179,182</u> | <u>178,204</u> |
| Total equity | | <u>6,856,437</u> | <u>6,952,975</u> |
| Current liabilities | | | |
| Trade and other payables | 13 | 838,013 | 653,406 |
| Tax payable | | 1,856 | 3,970 |
| Bank loans | 14 | <u>1,051,637</u> | <u>953,977</u> |
| | | <u>1,891,506</u> | <u>1,611,353</u> |
| TOTAL EQUITY AND LIABILITIES | | <u><u>8,747,943</u></u> | <u><u>8,564,328</u></u> |

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30th June, 2005

| | Attributable to equity holders of the Company | | | | | | | | |
|-------------------------------------------------|-----------------------------------------------|-----------------------------|-------------------------------|-----------------------------------------------------------------------------------------------------------------------------------------|-----------------------------------|--------------------------------|------------------|----------------------------------|------------------|
| | Share capital RMB'000 | Share premium RMB'000 | Capital reserve RMB'000 | Statutory surplus reserve fund, statutory public welfare fund and discretionary surplus reserve fund RMB'000 | Accumulated profits RMB'000 | Dividend reserve RMB'000 | Total RMB'000 | Minority interests RMB'000 | Total RMB'000 |
| At 1st January, 2004 | 2,482,268 | 1,764,905 | 572,239 | 682,168 | 1,163,261 | 124,113 | 6,788,954 | 175,657 | 6,964,611 |
| Net profit for the period | — | — | — | — | 65,329 | — | 65,329 | 754 | 66,083 |
| 2003 final dividend paid | — | — | — | — | — | (124,113) | (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> | <u>176,411</u> | <u>6,906,581</u> |
| At 1st January, 2005 | 2,482,268 | 1,764,905 | 572,239 | 703,217 | 1,128,029 | 124,113 | 6,774,771 | 178,204 | 6,952,975 |
| Net profit for the period | — | — | — | — | 26,595 | — | 26,595 | 978 | 27,573 |
| Unclaimed H Shares dividend in prior year | — | — | — | — | 2 | — | 2 | — | 2 |
| 2004 final dividend paid | — | — | — | — | — | (124,113) | (124,113) | — | (124,113) |
| At 30th June, 2005 | <u>2,482,268</u> | <u>1,764,905</u> | <u>572,239</u> | <u>703,217</u> | <u>1,154,626</u> | <u>—</u> | <u>6,677,255</u> | <u>179,182</u> | <u>6,856,437</u> |

CONDENSED CONSOLIDATED CASH FLOW STATEMENT

For the six months ended 30th June, 2005

| | 1.1.2005 to 30.6.2005 | 1.1.2004 to 30.6.2004 |
|------------------------------------------------------|----------------------------------|----------------------------------|
| | <i>RMB'000</i> | <i>RMB'000</i> |
| | (Unaudited) | (Unaudited) |
| Net cash outflow from operating activities | (67,203) | (252,290) |
| Net cash inflow (outflow) from investing activities: | | |
| Acquisition of property, plant and equipment | (14,757) | (10,627) |
| Interest received | 12,896 | 14,661 |
| Other investing cash flows | <u>—</u> | <u>309</u> |
| | <u>(1,861)</u> | <u>4,343</u> |
| Net cash inflow (outflow) from financing activities: | | |
| Short term bank borrowings raised | 851,637 | 565,000 |
| Short term bank borrowings repaid | (753,977) | (305,000) |
| Dividend paid | <u>(61,933)</u> | <u>(61,933)</u> |
| | <u>35,727</u> | <u>198,067</u> |
| Net decrease in cash and cash equivalents | (33,337) | (49,880) |
| Cash and cash equivalents at beginning of the period | <u>1,998,530</u> | <u>2,348,874</u> |
| Cash and cash equivalents at end of the period | <u><u>1,965,193</u></u> | <u><u>2,298,994</u></u> |

NOTES TO THE CONDENSED FINANCIAL STATEMENTS

For the six months ended 30th June, 2005

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 (the “Listing Rules”) and with Hong Kong Accounting Standard 34 “Interim financial reporting”.

2. PRINCIPAL ACCOUNTING POLICIES

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

The accounting policies used in the condensed financial statements are consistent with those followed in the preparation of the Group’s annual audited financial statements for the year ended 31st December, 2004, except as described below.

In the current period, the Group has applied, for the first time, a number of new Hong Kong Financial Reporting Standards (HKFRSs), Hong Kong Accounting Standards (HKASs) and Interpretations (hereinafter collectively referred to as “new HKFRSs”) issued by the Hong Kong Institute of Certified Public Accountants that are effective for accounting periods beginning on or after 1st January, 2005. The application of the new HKFRSs has resulted in a change in the presentation of the income statement, balance sheet and the statement of changes in equity. In particular, the presentation of minority interests has been changed. This change in presentation has been applied retrospectively. The adoption of the new HKFRSs has also resulted in a change to the Group’s accounting policy in respect of the leasehold interest in land and buildings located in the People’s Republic of China (the “PRC”).

In previous periods, the Group’s owner-occupied leasehold land and buildings in the PRC were included in property, plant and equipment and measured using the cost model. In the current period, the Group has applied HKAS 17 “Leases”. Under HKAS 17, to the extent that the allocation of the lease payments between the land and buildings elements can be made reliably, the leasehold interests in land are reclassified to prepaid lease payments under operating leases, which are carried at cost and amortised over the lease term on a straight-line basis. This change in accounting policy has been applied retrospectively (see below summary for its financial impact). Alternatively, where the allocation between the land and buildings elements cannot be made reliably, the leasehold interests in land continue to be accounted for as property, plant and equipment.

2. PRINCIPAL ACCOUNTING POLICIES (Cont'd)

The cumulative effects of the application of the new HKFRSs as at 31st December, 2004 and 1st January, 2005 are summarised below:

| | As at 31st December, 2004 (originally stated) <i>RMB'000</i> | Adjustment <i>RMB'000</i> | As at 31st December, 2004 and 1st January, 2005 (restated) <i>RMB'000</i> |
|------------------------------------------------------------------------------------------------------------|-----------------------------------------------------------------------------|------------------------------|---------------------------------------------------------------------------------------------|
| Property, plant and equipment | 3,739,120 | (46,774) | 3,692,346 |
| Intangible assets | 99,957 | — | 99,957 |
| Deposit paid in respect of purchase of property, plant and equipment | 6,229 | — | 6,229 |
| Prepaid lease payments | | | |
| — non-current portion | — | 45,585 | 45,585 |
| Inventories | 2,094,084 | — | 2,094,084 |
| Trade receivables, deposits and prepayments | 309,584 | — | 309,584 |
| Bills receivables | 316,824 | — | 316,824 |
| Prepaid lease payments | | | |
| — current portion | — | 1,189 | 1,189 |
| Bank balances, deposits and cash | 1,998,530 | — | 1,998,530 |
| Trade and other payables | (653,406) | — | (653,406) |
| Tax payable | (3,970) | — | (3,970) |
| Bank loans | (953,977) | — | (953,977) |
| Total effects on assets and liabilities | <u>6,952,975</u> | <u>—</u> | <u>6,952,975</u> |
| Share capital | 2,482,268 | — | 2,482,268 |
| Share premium | 1,764,905 | — | 1,764,905 |
| Capital reserve | 572,239 | — | 572,239 |
| Statutory surplus reserve fund, statutory public welfare fund and discretionary surplus reserve fund | 703,217 | — | 703,217 |
| Accumulated profits | 1,128,029 | — | 1,128,029 |
| Dividend reserve | 124,113 | — | 124,113 |
| Minority interests | — | 178,204 | 178,204 |
| Total effects on equity | <u>6,774,771</u> | <u>178,204</u> | <u>6,952,975</u> |
| Minority interests | 178,204 | (178,204) | — |

2. PRINCIPAL ACCOUNTING POLICIES (Cont'd)

The Group has not early applied the following new Standards or Interpretations that have been issued but are not yet effective. The directors of the Company anticipate that the application of these Standards or Interpretations will have no material impact on the financial statements of the Group.

| | |
|---------------------|------------------------------------------------------------------------------------------------------|
| HKAS 19 (Amendment) | Actuarial Gains and Losses, Group Plans and Disclosures |
| HKAS 39 (Amendment) | Cash Flow Hedge Accounting of Forecast Intragroup Transactions |
| HKAS 39 (Amendment) | The Fair Value Option |
| HKFRS 6 | Exploration for and Evaluation of Mineral Resources |
| HKFRS-Int 4 | Determining Whether an Arrangement contains a Lease |
| HKFRS-Int 5 | Rights to Interests arising from Decommissioning, Restoration and Environmental Rehabilitation Funds |

3. SEGMENT INFORMATION

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.

The Group's primary format for reporting segment information is business segments:

| | |
|----------------------------------|--------------------------------------------------------------------------|
| 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 |

(i) Segment information about these businesses for the period ended 30th June, 2005 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 | 909,595 | 25,730 | 537,310 | 91,997 | — | 45,699 | 1,610,331 |
| Result | | | | | | | |
| Segment results | 43,982 | (2,067) | 9,795 | 2,308 | — | 2,040 | 56,058 |
| Unallocated corporate expenses | | | | | | | (12,257) |
| Finance costs, net of interest income | | | | | | | (11,778) |
| Profit before tax | | | | | | | 32,023 |
| Taxation | | | | | | | (4,450) |
| Profit for the period | | | | | | | 27,573 |

3. SEGMENT INFORMATION (Cont'd)

(ii) Segment information about these businesses for the period ended 30th June, 2004 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 | 907,735 | 68,032 | 513,027 | 126,981 | 1,442 | 22,635 | 1,639,852 |
| Result | | | | | | | |
| Segment results | 60,478 | (3,618) | 22,758 | 9,340 | 175 | 2,383 | 91,516 |
| Unallocated corporate expenses | | | | | | | (12,451) |
| Finance costs, net of interest income | | | | | | | (1,647) |
| Profit before tax | | | | | | | 77,418 |
| Taxation | | | | | | | (11,335) |
| Profit for the period | | | | | | | 66,083 |

All of the production facilities of the Group are located in 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 2.15% of the Group's turnover for the period (for the six months ended 30th June, 2004: less than 1%).

4. FINANCE COSTS

| | 1.1.2005 to 30.6.2005 RMB' 000 | 1.1.2004 to 30.6.2004 RMB' 000 |
|-------------------------------------------------------------------------|--------------------------------------|--------------------------------------|
| Interest expenses on bank borrowings wholly repayable within five years | 23,799 | 14,211 |
| Other financial expenses | 2,263 | 3,147 |
| Total finance costs | 26,062 | 17,358 |

5. PROFIT BEFORE TAX

| | 1.1.2005 to 30.6.2005 | 1.1.2004 to 30.6.2004 |
|-------------------------------------------------------|----------------------------------|----------------------------------|
| | <i>RMB'000</i> | <i>RMB'000</i> |
| Profit before tax has been arrived at after charging: | | |
| Allowance for bad and doubtful debts | 1,428 | 4,029 |
| Amortisation of intangible assets | 8,864 | 12,369 |
| Amortisation of prepaid lease payments | 595 | 595 |
| Depreciation of property, plant and equipment | 105,179 | 101,962 |
| Loss on disposal of property, plant and equipment | 12 | 31 |

and after crediting:

| | | |
|--------------------------------------------------|--------------|------------|
| Interest income from bank deposits and balances | 14,284 | 15,711 |
| Exchange gain | 2,450 | 10,823 |
| Write back of allowance for obsolete inventories | <u>2,552</u> | <u>514</u> |

6. TAXATION

All PRC domestic enterprises are subject to a unified income tax rate of 33% on their taxable profits. 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, one of these subsidiaries is subject to 50% relief from income tax and is with its income tax rate at 7.5%. Another subsidiary of the Company has not yet commenced business and therefore no income tax has been provided.

6. TAXATION (Cont'd)

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

| | 1.1.2005 to 30.6.2005 | 1.1.2004 to 30.6.2004 |
|------------------------------------------------------------------------|----------------------------------|----------------------------------|
| | <i>RMB'000</i> | <i>RMB'000</i> |
| Profit before taxation | <u>32,023</u> | <u>77,418</u> |
| Tax at the applicable tax rate of 15% (2004: 15%) | 4,803 | 11,613 |
| Tax effect of income that is not taxable in determining taxable profit | (380) | (266) |
| Tax effect of tax loss not recognised | 27 | — |
| Effect of different tax rate of subsidiaries | <u>—</u> | <u>(12)</u> |
| Tax expenses for the period | <u>4,450</u> | <u>11,335</u> |

7. APPROPRIATIONS

The directors have resolved not to declare an interim dividend for the six months ended 30th June, 2005 (for the six months ended 30th June, 2004: nil).

On 20th April, 2005, the directors proposed a 2004 final dividend of RMB0.05 per share in cash for the year ended 31st December, 2004 (2003: RMB0.05 per share in cash). The 2004 final dividend of approximately RMB124,113,000 (2003: RMB124,113,000) was paid to the shareholders in June 2005.

No transfer to the statutory reserve fund or the statutory public welfare fund has been made from the profit for the six months period. In accordance with the provisions of Articles of Association of the Company and its subsidiaries, 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 attributable to the ordinary equity holders of the Company is based on the following data:

Earnings

| | 1.1.2005 to 30.6.2005 | 1.1.2004 to 30.6.2004 |
|----------------------------------------------------------------------------------------------------------------------------|----------------------------------|----------------------------------|
| | <i>RMB'000</i> | <i>RMB'000</i> |
| Earnings for the purpose of basic earnings per share (profit for the period attributable to equity holders of the Company) | <u>26,595</u> | <u>65,329</u> |

8. EARNINGS PER SHARE (Cont'd)

Number of shares

| | 30.6.2005 | 30.6.2004 |
|-----------------------------------------------------------------|------------------|------------------|
| | <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. MOVEMENTS IN PROPERTY, PLANT AND EQUIPMENT

During the period, the Group incurred approximately RMB14,757,000 (for the six months ended 30th June, 2004: RMB10,627,000) on additions to property, plant and equipment to maintain its manufacturing facilities and to upgrade its support facilities.

10. TRADE RECEIVABLES, DEPOSITS AND PREPAYMENTS

At the balance sheet date, the balance of trade receivables, deposits and prepayments included the amounts due from Qingling Motors (Group) Co. Ltd. ("Qingling Group"), the ultimate holding company of the Company, and subsidiaries of Qingling Group as follows:

| | 30.6.2005 | 31.12.2004 |
|--------------------------------|------------------|-------------------|
| | <i>RMB'000</i> | <i>RMB'000</i> |
| Qingling Group | — | 767 |
| Subsidiaries of Qingling Group | <u>2,983</u> | <u>5,617</u> |
| | <u>2,983</u> | <u>6,384</u> |

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

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

| | 30.6.2005 | 31.12.2004 |
|------------------------|------------------|-------------------|
| | <i>RMB'000</i> | <i>RMB'000</i> |
| Within 3 months | 228,518 | 198,093 |
| Between 3 to 6 months | 24,643 | 21,633 |
| Between 7 to 12 months | 8,098 | 14,324 |
| Between 1 to 2 years | 28,027 | 24,066 |
| Over 2 years | <u>12,783</u> | <u>9,558</u> |
| | <u>302,069</u> | <u>267,674</u> |

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

At the balance sheet date, included in trade receivables, deposits and prepayments are advances to suppliers for purchase of raw materials of RMB158,655,000 (31st December, 2004: RMB29,416,000).

11. BILLS RECEIVABLES

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

| | 30.6.2005 | 31.12.2004 |
|-----------------------|-----------------------|-----------------------|
| | <i>RMB'000</i> | <i>RMB'000</i> |
| Within 1 month | 100,533 | 112,562 |
| Between 1 to 2 months | 79,966 | 71,412 |
| Between 2 to 3 months | 109,113 | 46,130 |
| Between 4 to 6 months | <u>180,974</u> | <u>86,720</u> |
| | <u><u>470,586</u></u> | <u><u>316,824</u></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 its associate and certain subsidiaries of Qingling Group as follows:

| | 30.6.2005 | 31.12.2004 |
|--------------------------------|----------------------|---------------------|
| | <i>RMB'000</i> | <i>RMB'000</i> |
| Qingling Group | 41,312 | — |
| Subsidiaries of Qingling Group | 4,828 | 2,548 |
| An associate of Qingling Group | <u>10,514</u> | <u>7,287</u> |
| | <u><u>56,654</u></u> | <u><u>9,835</u></u> |

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

13. TRADE AND OTHER PAYABLES (Cont'd)

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

| | 30.6.2005 <i>RMB'000</i> | 31.12.2004 <i>RMB'000</i> |
|------------------------|------------------------------------|-------------------------------------|
| Within 3 months | 426,133 | 292,392 |
| Between 3 to 6 months | 50,796 | 53,630 |
| Between 6 to 12 months | 24 | 3,392 |
| Over 12 months | <u>16,248</u> | <u>16,925</u> |
| | <u>493,201</u> | <u>366,339</u> |

At the balance sheet date, included in trade and other payables are payable to Isuzu Motors Limited ("Isuzu"), a shareholder of the Company, of RMB24,506,000 (31st December, 2004: RMB23,957,000).

14. BANK LOANS

During the period ended 30th June, 2005, the Group has raised RMB851,637,000 (for the six months ended 30th June, 2004: RMB565,000,000) new bank loans and repaid RMB753,977,000 (for the six months ended 30th June, 2004: RMB305,000,000) bank loans.

15. RELATED PARTY TRANSACTIONS

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

(a) Qingling Group

| Type of transactions | Pricing policies | 1.1.2005 | 1.1.2004 |
|-------------------------------------------------------------------------------------------------|----------------------------------------------------------|---------------------------------------|---------------------------------------|
| | | to 30.6.2005 <i>RMB'000</i> | to 30.6.2004 <i>RMB'000</i> |
| Purchases of automobile parts | At cost plus a maximum mark-up of 10% | 25,918 | 22,894 |
| Supply of parts and raw materials for the manufacture of automobile parts required by the Group | At cost | 15,394 | 11,118 |
| Income from renting of moulds and tooling equipment | Reimbursement of depreciation charge | 1,290 | 2,477 |
| Service fee expenses | Fixed amount according to terms of the service agreement | 150 | 150 |

15. RELATED PARTY TRANSACTIONS (Cont'd)

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

| Type of transactions | Pricing policies | 1.1.2005 to 30.6.2005 RMB'000 | 1.1.2004 to 30.6.2004 RMB'000 |
|-------------------------------------------------------------------------------------------------|---------------------------------------|-------------------------------------|-------------------------------------|
| Purchases of automobile parts | At cost plus a maximum mark-up of 10% | 27,620 | 19,472 |
| Supply of parts and raw materials for the manufacture of automobile parts required by the Group | At cost | 2,094 | 2,875 |
| Sales of plant and equipment | At carrying value | — | 274 |
| | | <u> </u> | <u> </u> |

(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 | 1.1.2005 to 30.6.2005 RMB'000 | 1.1.2004 to 30.6.2004 RMB'000 |
|-------------------------------------------------------------------------------------------------|---------------------------------------|-------------------------------------|-------------------------------------|
| Purchases of automobile parts | At cost plus a maximum mark-up of 12% | 19,794 | 17,472 |
| Supply of parts and raw materials for the manufacture of automobile parts required by the Group | At cost | 414 | 549 |
| 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 | 1.1.2005 to 30.6.2005 RMB'000 | 1.1.2004 to 30.6.2004 RMB'000 |
|-------------------------------------------------------------------------------------------------|----------------------------|-------------------------------------|-------------------------------------|
| Purchases of automobile parts | At comparable market price | 103,599 | 109,179 |
| Supply of parts and raw materials for the manufacture of automobile parts required by the Group | At cost | 53,369 | 49,298 |
| | | <u> </u> | <u> </u> |

15. 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 50.80% interest

| Type of transactions | Pricing policies | 1.1.2005 to 30.6.2005 RMB'000 | 1.1.2004 to 30.6.2004 RMB'000 |
|-------------------------------------------------------------------------------------------------|----------------------------|----------------------------------------------|----------------------------------------------|
| Purchases of automobile parts | At comparable market price | 11,683 | 11,440 |
| Supply of parts and raw materials for the manufacture of automobile parts required by the Group | At cost | 2,779 | 2,517 |
| | | | |

(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 | 1.1.2005 to 30.6.2005 RMB'000 | 1.1.2004 to 30.6.2004 RMB'000 |
|-------------------------------------------------------------------------------------------------|----------------------------|----------------------------------------------|----------------------------------------------|
| Purchases of automobile parts | At comparable market price | 18,369 | 20,192 |
| Supply of parts and raw materials for the manufacture of automobile parts required by the Group | At cost | 7,494 | 9,409 |
| | | | |

(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 | 1.1.2005 to 30.6.2005 RMB'000 | 1.1.2004 to 30.6.2004 RMB'000 |
|-------------------------------------------------------------------------------------------------|---------------------------------------|----------------------------------------------|----------------------------------------------|
| Purchases of automobile parts | At cost plus a maximum mark-up of 12% | 3,571 | 2,238 |
| Supply of parts and raw materials for the manufacture of automobile parts required by the Group | At cost | 217 | 288 |
| | | | |

15. RELATED PARTY TRANSACTIONS (Cont'd)

During the period, Isuzu, an existing shareholder of the Company incorporated in Japan, had made an unconditional cash partial offer to acquire up to 324,960,400 H-shares of the Company not already owned by Isuzu or parties acting in concert with it and details of this offer were disclosed in a circular dated 10th June, 2005. Isuzu subsequently announced the closing for the acceptance of this unconditional cash partial offer on 24th June, 2005 and would acquire 324,960,400 H-shares of the Company pursuant to the terms of the partial offer. Taking into account such acceptances of the partial offer, Isuzu would own 496,453,654 H-shares representing approximately 40.08% of the issued H-share capital of the Company or 20% of the entire issued share capital of the Company upon the completion of the unconditional cash partial offer.

The Group sold automobile parts and accessories of approximately RMB745,000 to Isuzu between the closing date of the above unconditional cash partial offer and the balance sheet date.

16. CAPITAL COMMITMENTS

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

| | 30.6.2005 | 31.12.2004 |
|---------------------------------------------------------------------------------------------------------------------|------------------|-------------------|
| | <i>RMB'000</i> | <i>RMB'000</i> |
| Contracted for but not provided in the financial statements in respect of purchase of property, plant and equipment | <u>7,595</u> | <u>2,418</u> |

The Group had no significant capital commitments authorised but not contracted for at 30th June, 2005 and 31st December, 2004.

At the balance sheet date, the Company was committed to contribute US\$5,090,000, approximately RMB42,127,000 (31st December, 2004: US\$5,090,000, approximately RMB42,127,000) in connection with unpaid capital investment in a subsidiary.

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

The condensed 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

| | 1.1.2005 to 30.6.2005 RMB'000 | 1.1.2004 to 30.6.2004 RMB'000 |
|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|----------------------------------------------|----------------------------------------------|
| Net profit for the period attributable to equity holder of the Company, as per financial statements prepared under accounting principles generally accepted in Hong Kong | 26,595 | 65,329 |
| 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 RMB1,064,000 (for the six months ended 30th June, 2004: RMB680,000)) | (1,108) | (708) |
| Write-off of long outstanding accounts payable which was credited to capital reserve in the financial statements prepared under PRC accounting standards and regulations | <u>—</u> | <u>(21)</u> |
| Net profit for the period attributable to equity holders of the Company, as per financial statements prepared under PRC accounting standards and regulations | <u>25,126</u> | <u>64,239</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

| | 30.6.2005 | 31.12.2004 |
|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------------------------|-------------------------|
| | <i>RMB'000</i> | <i>RMB'000</i> |
| Net assets attributable to equity holders of the Company, as per financial statements prepared under accounting principles generally accepted in Hong Kong | 6,677,255 | 6,774,771 |
| 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 | 6,549 | 6,910 |
| 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 RMB5,953,000 (31st December, 2004: RMB4,889,000)) | <u>(6,197)</u> | <u>(5,089)</u> |
| Net assets as per financial statements prepared under PRC accounting standards and regulations | <u><u>6,677,607</u></u> | <u><u>6,776,592</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

The Board resolved not to declare an interim dividend for the 6 months ended 30th June, 2005 (for the 6 months ended 30th June, 2004: Nil).

REVIEW OF OPERATIONS FOR THE FIRST HALF OF THE YEAR

In the first half of the year, the PRC generally experienced a sharp slowdown in the growth of sales of vehicles. From March onwards, the production and sales volume has dropped at a rate of 4% per month. Nevertheless, the Company proactively kept abreast with the changing market and developed its competitiveness. As a result, the Company's production and sales volume amounted to 14,903 vehicles, with a turnover of RMB1.61 billion and a profit after tax of RMB27 million.

1. The Company fully utilized its competitive advantage of logistic vehicles in the Light-duty trucks series and boosted the sales of major products in the Pick-up trucks series for higher growth. The logistic vehicles in the Light-duty trucks series and the pick-up trucks increased by 7% and 11% respectively when compared with the corresponding period of last year.
2. The localization of accessories policy was adopted to enhance the performance and competitiveness of the products. Upon completion of the first stage as scheduled, the second stage commenced and will demonstrate its contributions in the second half of the year and thereafter.
3. The Company has been pushing forward technological advancement. It rapidly developed new products, such as Light-duty trucks series 600P tippers and wide-bodied logistics vehicles, and added charm to the design of Pick-up trucks series products to cater for customers' needs and enhance product competitiveness.
4. The quality enhancement campaign was intensified in full scale. Proven quality management of new Isuzu standards was applied to more than 100 production lines for continuous upgrading of management in on-site facilities, craftsmanship and uniforms, thus further strengthening our quality management.

OUTLOOK

The increasing strong strategic cooperation and the close relationship with Isuzu make the Company confident in faster development and larger market shares for the second half of the year and thence forth.

1. The Company will speed up the localization of accessories as well as underpin its quantity and quality assurance system. On top of quality assurance, the cost of products will also be reduced to enhance our competitive edge.
2. The continued enhancement of product competitiveness remains to be our focus. The specifications of different types of logistic vehicles will be diversified for various requirements of customers in different areas.
3. In pursuit of additional market shares, the Company will continue to strengthen its marketing competitiveness by developing a strong sales team and direct business relationship with quality after-service.
4. The quality enhancement campaign will be intensified for improvement of on-site quality management. The Company will maintain the training programs for staff at all levels to enhance its competitiveness in every respect.

Looking forward, a new impetus is expected to come with development opportunities and our implementation of measures. The Company is confident that satisfactory results is lying ahead.

FINANCIAL RESOURCES AND CASH FLOW SITUATION

Shareholders' interest as at 30th June, 2005 decreased by 1.4% compared with that as at 31st December, 2004. This decrease was mainly due to the profit attributable to equity holders of the Company for the period amounted to RMB26,595,000 and the payment of 2004 dividend of RMB124,113,000.

Net borrowings of the Group as at 30th June, 2005 amounted to RMB1,051,637,000, which were mainly advanced from the bank.

The Group's current assets were mainly bank deposits, inventories of raw materials and finished goods, bills receivables and trade receivables which amounted to RMB5,009,925,000, whereas current liabilities amounted to RMB1,891,506,000. As at 30th June, 2005, balance of bank deposits and cash amounted to RMB1,965,193,000.

As at 30th June, 2005, no assets had been pledged by the Group as security and the gearing ratio of the Group was 21.62%, 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.

As at 21st July, 2005, “Public Announcement of the People’s Bank of China on Reforming the RMB Exchange Rate Regime” was promulgated. The Company believes that currently this adjustment to RMB exchange rate has a positive effect on the Company.

PREFERENTIAL TREATMENTS FOR CONSOLIDATED INCOME TAX AND LOCAL TAX

The Group was subject to PRC Enterprise Tax under the Income Tax Law of the PRC for Enterprises with Foreign Investment and Foreign Enterprises in previous years. Pursuant to Clause 2, Section 3 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 are entitled to PRC Enterprise Income Tax at the rate of 15% effective from 1st January, 2001. Accordingly, the Company, as confirmed by the relevant authority of Chongqing, is subject to PRC Enterprise Income Tax at the rate of 15% from 1st January, 2001.

DESIGNATED DEPOSITS

As at 30th June, 2005, the Group did not have any designated deposits or any time deposits that were overdue but could not be collected upon maturity.

EMPLOYEES

As at 30th June, 2005, the Group has 2,977 employees (the same period in 2004: 2,987 employees). For the six months ended 30th June, 2005, the labour cost was RMB30,360,000 (the same period in 2004: RMB35,720,000). The Group actively provides various training programme to its staff of all levels.

SALE OF STAFF QUARTERS

For the six months ended 30th June, 2005, the Group had made no sale of any staff quarters to its employees.

SHAREHOLDING STRUCTURE

- (I) As at 30th June, 2005, 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, 2005, 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 | 100.00% | 50.10% |
| Isuzu Motors Ltd | Foreign shares (H Shares) | 496,453,654 shares <i>(Note)</i> | Beneficial Owner | 40.08% | 20.00% |

Note: Isuzu Motors Limited (“Isuzu”) originally had owned 171,493,254 H Shares, representing approximately 6.91% of the Company’s issued shares. Pursuant to the unconditional cash partial offer as announced on 27th May, 2005, Isuzu gave notification of acquiring 324,960,400 H Shares, representing approximately 13.09% of the Company’s issued shares, after the closing date of the partial offer as at 24th June, 2005. Upon completion of the acquisition on 2nd July, 2005, the 324,960,400 H shares were then transferred to Isuzu.

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, 2005.

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

As at 30th June, 2005, none of the directors, supervisors and chief executives of the Company has any interests or short positions in the shares, underlying shares or debentures of the Company or its associated corporations as defined under SFO as recorded in the register required to be kept under section 352 of SFO or as otherwise notified to the Company and The Stock Exchange of Hong Kong Limited (the "Stock Exchange") pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers. For the six months ended 30th June, 2005, 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 had any of them exercised such rights.

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

The Company did not redeem any of its listed securities during the 6 months ended of 30th June, 2005. Neither the Company nor any of its subsidiaries had purchased or sold any of its listed securities during the 6 months ended 30th June, 2005.

CODE ON CORPORATE GOVERNANCE PRACTICES

The Company endeavors to maintain a high standard of corporate governance.

Except the deviations specified below, the Company has complied with the Code Provisions of the Code on Corporate Governance Practices set out in Appendix 14 to the Listing Rules during the six months ended 30th June, 2005.

Code Provision A.2.1

This Code stipulates that the roles of chairman and chief executive officer should be separate and should not be performed by the same individual.

The chairman of the board of the Company who also assumes the position of the chief executive officer. The board believes that this structure helps to build a firm and consistent leadership at the current stage, which allows the Company to efficiently implement all the decisions in a prompt manner. With the expansion of business in the future, the Company shall also consider any structure conducive to the development of the Company.

Code Provisions A.5.4, C.3.3 and D.1.2

Code A.5.4 stipulates that the board should establish written guidelines for relevant employees in respect of their dealings in the securities of the issuer.

Code C.3.3 stipulates that the terms of reference of the audit committee should include all duties as stated in such Code Provision.

Code D.1.2 stipulates that the Company should formalise the functions reserved to the board and those delegated to management.

The Company has established an audit committee with written terms of reference to review and supervise the Company's financial reporting process and internal controls according to the Listing Rules.

At a board meeting held on 24th August, 2005, the Company has adopted a written guideline on employees' right to deal in the Company's securities, amended the terms of reference of the Audit Committee and formalised the respective functions of the Board of Directors and Management.

Code Provision B.1.1

This Code stipulates that the Company should establish a remuneration committee with specific written terms of reference which deal clearly with its authority and duties.

The Company requires more time to establish the Remuneration Committee with specific written terms of reference. It is expected that the Remuneration Committee shall be established by the end of the year.

Code Provision E.1.2

This Code stipulates that the chairman of the board should attend the Annual General Meeting.

The chairman of the board of the Company, Mr. Wu Yun, has signed a power of attorney, appointing the executive Director Mr. Liu Guangming to attend the 2005 Annual General Meeting. The chairman of the board of the Company, Mr. Wu Yun, should attend the Annual General Meeting of the Company unless any exceptional circumstances occur.

MODEL CODE

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (“Model Code”) set out in Appendix 10 to the Listing Rules as the code of conduct regarding securities transactions by the directors and supervisors. Having made specific enquiry of all directors and supervisors of the Company, the Company confirmed that its directors and supervisors have complied with the required standard set out in the Model Code during the six months ended 30th June, 2005.

BOARD OF DIRECTORS AND SUPERVISORY COMMITTEE

As at the date of this interim report, the Board comprises Mr. WU Yun (Chairman), Mr. GAO Jianmin, Mr. Yoshito MOCHIZUKI, Mr. SONG Zhenyuan, Mr. LIU Guangming, Mr. PAN Yong, Mr. YUE Huaqiang as executive directors, Mr. LONG Tao, Mr. SONG Xiaojiang and Mr. XU Bingjin as independent non-executive directors. The supervisory committee of the Company comprises Mr. LIU Qi, Ms. ZHOU Hong and Mr. FENG Jialing.

AUDIT COMMITTEE

The Audit Committee has reviewed with management the accounting policies and practices adopted by the Company and discussed internal controls and financial reporting matters, including a review of the unaudited interim financial report for the 6 months ended 30th June, 2005, with the Directors.

QUALIFIED ACCOUNTANT

The Company has not yet employed a Qualified Accountant pursuant to Rule 3.24 of the Listing Rules. The Company is in the process of seeking a suitable candidate to assume the position as soon as possible.

By Order of the Board
Wu Yun
Chairman

Chongqing, the PRC
24th August, 2005