



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)

Stock Code: 1122

2006 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.

Directors' responsibilities

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, 2006.

DELOITTE TOUCHE TOHMATSU

Certified Public Accountants

Hong Kong

22nd August, 2006

CONDENSED CONSOLIDATED INCOME STATEMENT

For the six months ended 30th June, 2006

		1.1.2006 to 30.6.2006 RMB'000 (Unaudited)	1.1.2005 to 30.6.2005 RMB'000 (Unaudited)
Turnover	3	1,617,822	1,610,331
Cost of sales		<u>(1,361,029)</u>	<u>(1,390,346)</u>
Gross profit		256,793	219,985
Other income		24,412	19,643
Selling and distribution costs		(175,361)	(137,777)
Administrative expenses		(58,906)	(43,766)
Finance costs	4	<u>(9,315)</u>	<u>(26,062)</u>
Profit before taxation	5	37,623	32,023
Taxation	6	<u>(4,484)</u>	<u>(4,450)</u>
Profit for the period		<u><u>33,139</u></u>	<u><u>27,573</u></u>
Attributable to:			
Equity holders of the Company		32,336	26,595
Minority interests		<u>803</u>	<u>978</u>
		<u><u>33,139</u></u>	<u><u>27,573</u></u>
Basic earnings per share	8	<u><u>RMB0.0130</u></u>	<u><u>RMB0.0107</u></u>

CONDENSED CONSOLIDATED BALANCE SHEET

At 30th June, 2006

		30.6.2006	31.12.2005
		<i>RMB'000</i>	<i>RMB'000</i>
	<i>Notes</i>	(Unaudited)	(Audited)
ASSETS			
Non-current assets			
Property, plant and equipment	9	3,378,041	3,497,651
Intangible assets		74,841	82,471
Prepaid lease payments		43,801	44,396
Deposit paid in respect of purchase of property, plant and equipment		<u>—</u>	<u>3,036</u>
		<u>3,496,683</u>	<u>3,627,554</u>
Current assets			
Inventories		1,212,392	1,763,652
Trade receivables, other receivables and prepayments	10	384,053	306,427
Bills receivable	11	558,429	505,205
Prepaid lease payments		1,189	1,189
Bank deposits	12	690,497	670,260
Cash and cash equivalent		<u>1,596,476</u>	<u>1,338,029</u>
		<u>4,443,036</u>	<u>4,584,762</u>
TOTAL ASSETS		<u><u>7,939,719</u></u>	<u><u>8,212,316</u></u>

		30.6.2006	31.12.2005
		<i>RMB'000</i>	<i>RMB'000</i>
	<i>Notes</i>	(Unaudited)	(Audited)
OWNERS' EQUITY AND LIABILITIES			
Capital and reserves			
Share capital	13	2,482,268	2,482,268
Reserves		<u>4,190,414</u>	<u>4,207,723</u>
Equity attributable to equity holders of the Company			
		6,672,682	6,689,991
Minority interests		<u>218,478</u>	<u>178,483</u>
Total equity		<u>6,891,160</u>	<u>6,868,474</u>
Current liabilities			
Trade, bills and other payables	14	837,263	745,137
Tax payable		4,916	570
Bank loans	15	<u>206,380</u>	<u>598,135</u>
		<u>1,048,559</u>	<u>1,343,842</u>
TOTAL EQUITY AND LIABILITIES		<u><u>7,939,719</u></u>	<u><u>8,212,316</u></u>

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30th June, 2006

	Attributable to equity holders of the Company										
	Share	Share	Capital	Statutory	Statutory	Discretionary	Accumulated	Dividend	Minority		
	capital	premium	reserve	surplus	public welfare	surplus	Accumulated	reserve	Total	interests	Total
	RMB'000	RMB'000	RMB'000	reserve fund	fund	reserve fund	profits	RMB'000	RMB'000	RMB'000	RMB'000
At 1st January,											
2005	2,482,268	1,764,905	572,239	351,023	350,437	1,757	1,128,029	124,113	6,774,771	178,204	6,952,975
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>351,023</u>	<u>350,437</u>	<u>1,757</u>	<u>1,154,626</u>	<u>—</u>	<u>6,677,255</u>	<u>179,182</u>	<u>6,856,437</u>
At 1st January,											
2006	2,482,268	1,764,905	572,239	354,858	354,269	1,765	1,110,042	49,645	6,689,991	178,483	6,868,474
Profit for the period	—	—	—	—	—	—	32,336	—	32,336	803	33,139
Capital injection in											
a subsidiary	—	—	—	—	—	—	—	—	—	39,192	39,192
2005 final dividend											
paid	—	—	—	—	—	—	—	(49,645)	(49,645)	—	(49,645)
Transfer (Note)	—	—	—	354,269	(354,269)	—	—	—	—	—	—
At 30th June, 2006	<u>2,482,268</u>	<u>1,764,905</u>	<u>572,239</u>	<u>709,127</u>	<u>—</u>	<u>1,765</u>	<u>1,142,378</u>	<u>—</u>	<u>6,672,682</u>	<u>218,478</u>	<u>6,891,160</u>

Note: In accordance with the latest PRC relevant laws and regulations, the unutilised statutory public welfare fund was transferred to statutory surplus reserve fund during the period.

CONDENSED CONSOLIDATED CASH FLOW STATEMENT

For the six months ended 30th June, 2006

	1.1.2006 to 30.6.2006 RMB'000 (Unaudited)	1.1.2005 to 30.6.2005 RMB'000 (Unaudited)
Net cash from (used in) operating activities	<u>671,926</u>	<u>(67,203)</u>
Net cash used in investing activities:		
Increase in fixed deposits with banks	(20,237)	(135,765)
Acquisition of property, plant and equipment	(5,537)	(14,757)
Interest received	14,481	12,896
Proceeds from disposal of property, plant and equipment	<u>22</u>	<u>—</u>
	<u>(11,271)</u>	<u>(137,626)</u>
Net cash (used in) from financing activities:		
Short term bank borrowings repaid	(538,153)	(753,977)
Dividend paid	(49,645)	(61,933)
Short term bank borrowings raised	146,398	851,637
Proceeds from capital injection by the minority shareholder of a subsidiary	<u>39,192</u>	<u>—</u>
	<u>(402,208)</u>	<u>35,727</u>
Net increase (decrease) in cash and cash equivalents	258,447	(169,102)
Cash and cash equivalents at beginning of the period	<u>1,338,029</u>	<u>1,510,085</u>
Cash and cash equivalents at end of the period	<u><u>1,596,476</u></u>	<u><u>1,340,983</u></u>

NOTES TO THE CONDENSED FINANCIAL STATEMENTS

For the six months ended 30th June, 2006

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 Hong Kong Accounting Standard 34 “Interim financial reporting”, issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”).

2. PRINCIPAL ACCOUNTING POLICIES

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

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, 2005 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 HKICPA that are effective for accounting periods beginning on or after 1st December 2005 or 1st January 2006. The adoption of the new HKFRSs has had no material effect on how the Group’s results for the current or prior accounting periods are prepared and presented. Accordingly, no prior period adjustment had been required.

The Group has not early applied the following new standards, amendments and interpretations that have been issued but are not yet effective. The directors of the Company anticipate that the application of these new HKFRSs will have no material impact on financial position and results of the Group.

HKAS 1 (Amendment)	Capital disclosure ¹
HKFRS 7	Financial instruments: disclosures ²
HK (IFRIC) - Int 7	Applying the Restatement Approach under HKAS 29 Financial Reporting in Hyperinflationary Economies ³
HK (IFRIC) - Int 8	Scope of HKFRS 2 ⁴
HK (IFRIC) - Int 9	Reassessment of embedded derivatives ⁵

1 Effective for annual periods beginning on or after 1st January 2007

2 Effective for annual periods beginning on or after 1st January 2007

3 Effective for annual periods beginning on or after 1st March 2006

4 Effective for annual periods beginning on or after 1st May 2006

5 Effective for annual periods beginning on or after 1st June 2006

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. Those products are the basis on which the Group reports its primacy segment information.

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

(i) Segment information about these businesses for the period ended 30th June, 2006 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>925,167</u>	<u>51,643</u>	<u>476,009</u>	<u>114,973</u>	<u>97</u>	<u>49,933</u>	<u>1,617,822</u>
Result							
Segment result	<u>43,643</u>	<u>640</u>	<u>422</u>	<u>1,789</u>	<u>(31)</u>	<u>757</u>	47,220
Unallocated corporate expenses							(15,844)
Unallocated finance costs							(9,315)
Unallocated interest income							<u>15,562</u>
Profit before taxation							37,623
Taxation							<u>(4,484)</u>
Profit for the period							<u><u>33,139</u></u>

3. SEGMENT INFORMATION (Cont'd)

(ii) Segment information about these businesses for the period ended 30th June, 2005 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	909,595	25,730	537,310	91,997	—	45,699	1,610,331
Result							
Segment result	43,982	(2,067)	9,795	2,308	—	2,040	56,058
Unallocated corporate expenses							(12,257)
Unallocated finance costs							(26,062)
Unallocated interest income							14,284
Profit before taxation							32,023
Taxation							(4,450)
Profit for the period							27,573

All of the production facilities of the Group are located in the People's Republic of China ("PRC") and substantially all of the sales of the Group are also made in the PRC. The Group has made limited export sales to Japan which accounted for 2.17% of the Group's turnover for the period (six months ended 30th June, 2005: 2.15%).

4. FINANCE COSTS

	1.1.2006 to 30.6.2006 <i>RMB' 000</i>	1.1.2005 to 30.6.2005 <i>RMB' 000</i>
Interest expenses on bank borrowings wholly repayable within five years	9,315	26,062

5. PROFIT BEFORE TAXATION

	1.1.2006 to 30.6.2006 <i>RMB'000</i>	1.1.2005 to 30.6.2005 <i>RMB'000</i>
Profit before taxation has been arrived at after charging:		
Allowance for bad and doubtful debts	11,971	1,428
Amortisation of intangible assets (included in cost of sales)	7,630	8,864
Amortisation of prepaid lease payments (included in cost of sales)	595	595
Depreciation of property, plant and equipment	128,160	105,179
Loss on disposal of property, plant and equipment	1	12

and after crediting:

Interest income from bank deposits and balances	15,562	14,284
Net exchange gain	4,800	2,450
Reversal of write-down of obsolete inventories	<u>182</u>	<u>2,552</u>

6. TAXATION

The Company and its subsidiaries are subject to the PRC Enterprise Income Tax. 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 business 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% effective 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, 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. One of these subsidiaries finished its enjoyment of this income tax relief last year. Since it was still recognised as an advanced technology company, according to the Income Tax Law of the PRC for Enterprises with Foreign Investment and Foreign Enterprises which was issued by PRC Tax Bureau, this subsidiary can use the income tax rate of 10% for the next three years from year 2005. 2006 is the second year this subsidiary enjoyed the income tax rate of 10%. 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:

	1.1.2006 to 30.6.2006	1.1.2005 to 30.6.2005
	<i>RMB' 000</i>	<i>RMB' 000</i>
Profit before taxation	<u>37,623</u>	<u>32,023</u>
Tax at the applicable tax rate of 15% (2005: 15%)	5,643	4,803
Tax effect of income that is not taxable in determining taxable profit	(212)	(380)
Over provision in prior year	(914)	—
Effect of different tax rate of subsidiaries	(33)	—
Tax effect of tax loss not recognised	<u>—</u>	<u>27</u>
Tax expenses for the period	<u>4,484</u>	<u>4,450</u>

7. APPROPRIATIONS

The directors have resolved not to declare an interim dividend for the six months ended 30th June, 2006 (six months ended 30th June, 2005: nil).

On 20th April, 2006, the directors proposed a 2005 final dividend of RMB0.02 per share in cash for the year ended 31st December, 2005 (2004: RMB0.05 per share in cash). The 2005 final dividend of approximately RMB49,645,000 (2004: RMB124,113,000) was paid to the shareholders in June 2006.

No transfer to the statutory surplus reserve fund or discretionary surplus reserve 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 equity holders of the Company is based on the following data:

Earnings

	Six months ended	
	30.6.2006	30.6.2005
	<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>32,336</u>	<u>26,595</u>

8. EARNINGS PER SHARE (Cont'd)

Number of shares

	30.6.2006 <i>'000</i>	30.6.2005 <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 RMB8,573,000 (six months ended 30th June, 2005: RMB14,757,000) on additions to property, plant and equipment to maintain its manufacturing facilities and to upgrade its support facilities.

10. TRADE RECEIVABLES, OTHER RECEIVABLES AND PREPAYMENTS

- (a) At the balance sheet date, the balance of trade receivables, other receivables 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:

	30.6.2006 <i>RMB'000</i>	31.12.2005 <i>RMB'000</i>
Qingling Group	—	4,078
Subsidiaries of Qingling Group	<u>11,963</u>	<u>10,409</u>
	<u>11,963</u>	<u>14,487</u>

These amounts are unsecured, interest free and are repayable in accordance with normal credit term of the Group.

- (b) At the balance sheet date, the aged analysis of trade receivables, net of allowances, of the Group is as follows:

	30.6.2006 <i>RMB'000</i>	31.12.2005 <i>RMB'000</i>
Within 3 months	245,701	226,127
Between 3 to 6 months	2,545	272
Between 7 to 12 months	635	102
Between 1 to 2 years	534	16,429
Over 2 years	<u>1,690</u>	<u>10,283</u>
	<u>251,105</u>	<u>253,213</u>

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

An allowance has been made for estimated irrecoverable amount from sales of goods of RMB25,184,000 (31st December, 2005: RMB13,213,000).

11. BILLS RECEIVABLE

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

	30.6.2006	31.12.2005
	<i>RMB'000</i>	<i>RMB'000</i>
Within 1 month	195,062	119,502
Between 1 to 2 months	94,389	71,465
Between 2 to 3 months	72,318	66,498
Between 4 to 6 months	<u>196,660</u>	<u>247,740</u>
	<u>558,429</u>	<u>505,205</u>

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

12. BANK DEPOSITS

The fixed deposits with banks are due within 6 to 12 months and their respective interest rates are ranging from 2.07% to 2.25% (2005: 2.07% to 4.06%).

13. SHARE CAPITAL

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

14. TRADE, BILLS AND OTHER PAYABLES

- (a) At the balance sheet date, the balance of trade, bills and other payables included the amounts due to Qingling Group, subsidiaries of Qingling Group and Isuzu Motors Limited (“Isuzu”) and its wholly-owned subsidiaries, Isuzu (China) Holding Co.,Ltd. (hereinafter collectively referred to as “Isuzu Group”) as follows:

	30.6.2006	31.12.2005
	<i>RMB'000</i>	<i>RMB'000</i>
Qingling Group	607	—
Subsidiaries of Qingling Group	11,554	7,682
Isuzu Group	<u>35,499</u>	<u>26,944</u>
	<u>47,660</u>	<u>34,626</u>

These amounts are unsecured, interest free and are repayable in accordance with normal credit term.

14. TRADE, BILLS AND OTHER PAYABLES (Cont'd)

- (b) At the balance sheet date, the aged analysis of trade and bills payables of the Group is as follows:

	30.6.2006	31.12.2005
	<i>RMB'000</i>	<i>RMB'000</i>
Within 3 months	532,903	384,307
Between 3 to 6 months	3,644	92,257
Between 7 to 12 months	55	9
Over 12 months	<u>15,752</u>	<u>15,624</u>
	<u>552,354</u>	<u>492,197</u>

Trade, bills and other payables principally comprise amounts outstanding for trade purchases and ongoing costs.

15. BANK LOANS

The bank loans are repayable within one year, unsecured and carrying interest at fixed interest rates ranging from 5.022% to 5.265% per annum (2005: 4.04% to 5.20%).

During the period, the Group has raised RMB146,398,000 (six months ended 30th June, 2005: RMB851,637,000) new bank loans and repaid RMB538,153,000 (six months ended 30th June, 2005: RMB753,977,000) bank loans.

16. RELATED PARTY TRANSACTIONS

Apart from the amounts due from and to related companies as disclosed in notes 10 and 14, during the period, the Group has entered into the following significant transactions with related parties:

(1) Transactions with Qingling Group and its subsidiaries

(a) *Qingling Group, the ultimate holding company of the Company*

Type of transactions	1.1.2006 to 30.6.2006	1.1.2005 to 30.6.2005
	<i>RMB'000</i>	<i>RMB'000</i>
Purchases of automobile parts	24,020	25,918
Supply of parts and raw materials for the manufacture of automobile parts required by the Group	12,767	15,394
Income from renting of moulds and tooling equipment	2,917	1,290
Rental expenses of storeroom	2,429	—
Service fee expenses	<u>150</u>	<u>150</u>

(b) *重慶慶鈴鑄造有限公司, the subsidiary of Qingling Group*

Type of transactions	1.1.2006 to 30.6.2006	1.1.2005 to 30.6.2005
	<i>RMB'000</i>	<i>RMB'000</i>
Purchases of automobile parts	28,698	27,620
Supply of parts and raw materials for the manufacture of automobile parts required by the Group	<u>3,061</u>	<u>2,094</u>

(c) *重慶慶鈴鍛造有限公司, the subsidiary of Qingling Group*

Type of transactions	1.1.2006 to 30.6.2006	1.1.2005 to 30.6.2005
	<i>RMB'000</i>	<i>RMB'000</i>
Purchases of automobile parts	23,806	19,794
Supply of parts and raw materials for the manufacture of automobile parts required by the Group	<u>562</u>	<u>414</u>

16. RELATED PARTY TRANSACTIONS (Cont'd)

(1) Transactions with Qingling Group and its subsidiaries (Cont'd)

(d) *重慶慶鈴車橋有限公司, the subsidiary of Qingling Group*

Type of transactions	1.1.2006 to 30.6.2006	1.1.2005 to 30.6.2005
	<i>RMB'000</i>	<i>RMB'000</i>
Purchases of automobile parts	122,303	103,599
Supply of parts and raw materials for the manufacture of automobile parts required by the Group	<u>38,810</u>	<u>53,369</u>

(e) *重慶慶鈴日發座椅有限公司, the subsidiary of Qingling Group*

Type of transactions	1.1.2006 to 30.6.2006	1.1.2005 to 30.6.2005
	<i>RMB'000</i>	<i>RMB'000</i>
Purchases of automobile parts	11,968	11,683
Supply of parts and raw materials for the manufacture of automobile parts required by the Group	<u>3,431</u>	<u>2,779</u>

(f) *重慶慶鈴塑料有限公司, the subsidiary of Qingling Group*

Type of transactions	1.1.2006 to 30.6.2006	1.1.2005 to 30.6.2005
	<i>RMB'000</i>	<i>RMB'000</i>
Purchases of automobile parts	20,246	18,369
Supply of parts and raw materials for the manufacture of automobile parts required by the Group	<u>7,767</u>	<u>7,494</u>

(g) *重慶慶鈴鑄鋁有限公司, the subsidiary of Qingling Group*

Type of transactions	1.1.2006 to 30.6.2006	1.1.2005 to 30.6.2005
	<i>RMB'000</i>	<i>RMB'000</i>
Purchases of automobile parts	3,912	3,571
Supply of parts and raw materials for the manufacture of automobile parts required by the Group	<u>334</u>	<u>217</u>

16. RELATED PARTY TRANSACTIONS (Cont'd)

(2) Transactions with Isuzu Group

During 2005, Isuzu, an existing shareholder of the Company incorporated in Japan, had made an unconditional cash partial offer which closed on 24th June, 2005 and acquired 324,960,400 H-shares of the Company pursuant to the terms of the offer disclosed in a circular of the Company dated 10th June, 2005. Upon the completion of this unconditional cash partial offer, Isuzu owns 496,453,654 H-shares representing 40.08% of the issued H-share capital of the Company or 20% of the entire issued share capital of the Company.

Type of transactions	1.1.2006 to 30.6.2006 <i>RMB'000</i>	1.1.2005 to 30.6.2005 <i>RMB'000</i>
Royalties on sale of trucks and other vehicles	11,682	—
Sales of accessory sets	<u>35,091</u>	<u>—</u>
Purchase of parts and components	45,365	—
Purchase of property, plant and equipment	<u>6,148</u>	<u>—</u>

(3) Transactions/balances with other state-controlled entities in the PRC

The Group operates in an economic environment currently predominated by entities directly or indirectly owned or controlled by the PRC government (“state-controlled entities”). In addition, the Group itself is part of a larger group of companies under Qingling Group which is controlled by the PRC government. Apart from the transactions with Qingling Group and its subsidiaries disclosed in section (1) above, the Group also conducts businesses with other state-controlled entities. The directors consider those state-controlled entities are independent third parties so far as the Group’s business transactions with them are concerned.

Material transactions/balances with other state-controlled entities are as follow:

	1.1.2006 to 30.6.2006 <i>RMB'000</i>	1.1.2005 to 30.6.2005 <i>RMB'000</i>
Trade sales	<u>723,257</u>	<u>666,772</u>
Trade purchases	<u>73,021</u>	<u>121,160</u>
	30.6.2006 <i>RMB'000</i>	31.12.2005 <i>RMB'000</i>
Trade balance due from other state-controlled entities	<u>397,020</u>	<u>425,422</u>
Trade balance due to other state-controlled entities	<u>105,554</u>	<u>138,929</u>

16. RELATED PARTY TRANSACTIONS (Cont'd)

(3) Transactions/balances with other state-controlled entities in the PRC (Cont'd)

In addition, the Group has entered into various transactions, including utilities services and surcharges / taxes charged by the PRC government, and deposits and borrowings and other general banking facilities with certain banks and financial institutions which are state-controlled entities in its ordinary course of business. In view of the nature of these banking transactions, the directors are of the opinion that separate disclosure would not be meaningful.

Except as disclosed above, the directors are of the opinion that transactions with other state-controlled entities are not significant to the Group's operations.

(4) Compensation of directors and key management personnel

The short term benefits paid or payable by the Group to directors of the Company and other members of key management during the six months ended 30th June, 2006 is approximately RMB639,000 (six months ended 30th June, 2005: RMB635,000).

17. CAPITAL COMMITMENTS

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

	30.6.2006	31.12.2005
	<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>295</u>	<u>900</u>

The Group had no significant capital commitments authorised but not contracted for at 30th June, 2006 and 31st December, 2005.

On 28th February, 2006, the Company and Isuzu entered into an agreement to establish Qingling Isuzu (Chongqing) Engine Co., Ltd. (慶鈴五十鈴(重慶)發動機有限公司, "Qingling Isuzu Engine") to engage in the manufacture of engines and parts. Pursuant to the agreement, the Company will contribute US\$42,130,000, approximately RMB337,000,000 (31st December, 2005: nil), to Qingling Isuzu Engine. The establishment of Qingling Isuzu Engine is in progress and is subject to the approval of the relevant authorities of the PRC government.

DIFFERENCES BETWEEN HKFRSs AND PRC ACCOUNTING STANDARDS AND REGULATIONS AS APPLICABLE TO THE GROUP

The condensed financial statements prepared under HKFRSs and those prepared under PRC accounting standards and regulations have the following major differences:

Impact on condensed consolidated income statement

	1.1.2006 to 30.6.2006	1.1.2005 to 30.6.2005
	<i>RMB'000</i>	<i>RMB'000</i>
Profit for the period as per consolidated financial statements prepared under Hong Kong Financial Reporting Standards	33,139	27,573
Add: Pre-operating expenses in connection with the formation of Qingling Isuzu Engine not included in the income statement prepared under PRC accounting standards and regulations	877	—
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	<u>(1,929)</u>	<u>(2,172)</u>
Profit for the period as per financial statements prepared under PRC accounting standards and regulations	<u><u>31,726</u></u>	<u><u>25,040</u></u>

Impact on condensed consolidated balance sheet

	30.6.2006	31.12.2005
	<i>RMB'000</i>	<i>RMB'000</i>
Total equity as per financial statements prepared under Hong Kong Financial Reporting Standards	6,891,160	6,868,474
Add: Pre-operating expense in connection with formation of Qingling Isuzu Engine, not included in the income statement prepared under PRC accounting standards and regulations	1,874	997
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	5,827	6,188
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	<u>(13,447)</u>	<u>(11,518)</u>
Total equity as per financial statements prepared under PRC accounting standards and regulations	<u><u>6,885,414</u></u>	<u><u>6,864,141</u></u>

There are also differences in other items in the condensed consolidated financial statements due to differences in classification between HKFRSs and PRC accounting standards and regulations.

INTERIM DIVIDEND

The Board resolved not to declare an interim dividend for the six months ended 30th June, 2006 (six months ended 30th June, 2005: Nil).

REVIEW OF RESULTS

The Company achieved hard-earned results for the first six months of 2006 as it continued to implement joint operation with Isuzu in persistent adherence to the guiding principle of maintaining leadership in technology and quality, underpinned by enhanced marketing capabilities, product cost reductions and ongoing efforts to foster and improve core competitive strengths.

1. Commercial vehicles accounted for 65% of total sales volume compared to 63% for the same period last year as we leveraged on the Isuzu's superiority in technology and quality. The N Series commercial vehicles recorded year-on-year growth in sales volume, while sales volume of the F Series heavy-duty commercial vehicles increased by 26%.
2. The Company strengthened management over the procurement of raw materials and accessories through ongoing cost reduction initiatives. Management of controllable cost elements in the production and manufacturing processes was introduced and treasury management was enhanced in a bid to lower costs and improve product cost competitiveness on an ongoing basis.
3. Major efforts were made to improve our marketing capabilities, with special emphasis on nurture and enhancement of marketing capabilities in provincial capitals and economic hubs. Dealers were nurtured and developed to cater to mainstay customers with different characteristics with a view to providing support for sales growth.
4. Ongoing initiatives for technological progress and management enhancement were launched to expedite product development projects. Constant improvements to management standards were sought in terms of manufacturing quality, marketing and after-sales services to gear up the Company for the next stage of market competition.

OUTLOOK

The Company and Isuzu are gearing up efforts to foster competitive strengths in their joint operation, driving Qingling towards development at a higher level.

1. The improvement of marketing capabilities will remain a major focus. Efforts to construct and foster marketing networks will be enhanced by drawing inspirations from foreign advanced marketing theories, while a strong marketing support system providing after-sales services will be developed to contribute to the improvement of marketing capabilities.
2. Cost reduction initiatives will continue while the quality assurance system for accessories will be enhanced to consolidate results achieved localisation programmes. Meanwhile, we will continue to seek product cost reductions in order to enhance competitiveness in terms of the performance to price ratio for products.
3. We will move swiftly to develop and launch commercial vehicles in new models and specifications, such as urban logistics vehicles, in response to changing market demands, in a bid to increase sales by meeting different user requirements.

The Company firmly believes that it will be able to expand its market share and deliver sound results as its competitive strengths are brought into full play in the remainder of the year and beyond.

FINANCIAL RESOURCES AND CASH FLOW POSITION

Owners' equity as at 30th June, 2006 increased by 0.33% compared with that as at 31st December, 2005. This increment was mainly due to the profit for the period amounted to RMB33,139,000, the capital injected in a subsidiary by its minority shareholder amounted to RMB39,192,000 and the payment of 2005 dividend of RMB49,645,000.

The borrowings of the Group as at 30th June, 2006 amounted to RMB206,380,000, which were wholly from the banks.

The Group's current assets were mainly bank deposits, cash and cash equivalent, inventories of raw materials and finished goods, bills receivable and trade receivables which amounted to RMB4,443,036,000, whereas current liabilities amounted to RMB1,048,559,000. As at 30th June, 2006, bank deposits, cash and cash equivalent amounted to RMB2,286,973,000.

As at 30th June, 2006, no assets has been pledged by the Group as security. The gearing ratio of the Group was 13.21%, calculated by dividing total liabilities over total assets. The Group did not have any significant contingent liabilities. The Group continued their prudent policy of 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 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 Chongqing Branch Office of the State Tax Bureau, is subject to PRC Enterprise Income Tax at the rate of 15% effective from 1st January, 2001.

DESIGNATED DEPOSITS

As at 30th June, 2006, 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, 2006, the Group had 3,050 employees (2005: 2,977 employees). For the six months ended 30th June, 2006, labour cost was RMB33,611,000 (six months ended 30th June, 2005: RMB30,360,000). The Group actively provides various training programme to its staff of all levels.

SALE OF STAFF QUARTERS

For the six months ended 30th June, 2006, the Group did not sell any staff quarters to its employees.

SHAREHOLDING STRUCTURE

- (I) As at 30th June, 2006, 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, 2006, shareholders, other than a director, supervisor or chief executive of the Company having any interests and short positions in 5% or more of the relevant classes of issued share capital of the Company as recorded in the register 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 Group	Domestic shares	1,243,616,403 shares	Beneficial Owner	100.00%	50.10%
Isuzu	Foreign shares (H Shares)	496,453,654 shares	Beneficial Owner	40.08%	20.00%

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 Shares and underlying shares of the Company as at 30th June, 2006.

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

As at 30th June, 2006, 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 Companies (the "Model Code"). For the six months ended 30th June, 2006, 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

The Company did not redeem any of its listed securities during the six months ended 30th June, 2006. Neither the Company nor any of its subsidiaries purchased or sold any of its listed securities during the six months ended 30th June, 2006.

CODE ON CORPORATE GOVERNANCE PRACTICES

The Company endeavours 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 Rules of Governing the Listing of Securities on the Stock Exchange (the "Listing Rules") during the six months ended 30th June, 2006.

Code Provision B.1.1

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

As the Company requires sufficient time for preparation, a remuneration committee with specific terms of reference has not yet been established before 20th April, 2006. However, the remuneration committee has been established at the Board meeting held on 20th April, 2006. Members and Chairman of the Remuneration Committee and specific written terms of reference have been determined.

Code Provision E.1.2

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

Owing to an important commitment overseas, the chairman of the board of the Company, Mr. Wu Yun, has given an apology for not presiding the 2006 Annual General Meeting. Hence, he has signed a power of attorney, appointing the executive Director Mr. Liu Guangming to preside the 2006 Annual General Meeting on his behalf. 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.

MODE CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted the Model Code set out in Appendix 10 of 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, the Company confirmed all directors and supervisors have complied with the required standard set out in the Model Code during the period.

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 locating a suitable candidate to assume such position as soon as possible.

ORDINARY HONG KONG RESIDENT AS AN INDEPENDENT NON-EXECUTIVE DIRECTOR

The Company has not yet employed an ordinary Hong Kong resident as an independent non-executive director pursuant to Rule 19A.18(1) of the Listing Rules. The Company is in the process of locating a suitable candidate to assume such position as soon as possible.

By order of the Board

Wu Yun

Chairman

22nd August, 2006 at Chongqing, PRC