



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

2007 Interim Report



**REPORT ON REVIEW OF INTERIM FINANCIAL INFORMATION
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 reviewed the interim financial information set out on pages 3 to 19, which comprises the condensed consolidated balance sheet of Qingling Motors Co., Ltd. as of 30 June 2007 and the related condensed consolidated income statement, condensed consolidated statement of changes in equity and condensed consolidated cash flow statement for the six-month period then ended and certain explanatory notes. The Main Board Listing Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited require the preparation of a report on interim financial information to be in compliance with the relevant provisions thereof and Hong Kong Accounting Standard (“HKAS”) 34 “Interim Financial Reporting” issued by the Hong Kong Institute of Certified Public Accountants. The directors are responsible for the preparation and presentation of this interim financial information in accordance with HKAS 34. Our responsibility is to express a conclusion on this interim financial information based on our review, 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.

SCOPE OF REVIEW

We conducted our review in accordance with Hong Kong Standard on Review Engagements 2410 “Review of Interim Financial Information Performed by the Independent Auditor of the Entity” issued by the Hong Kong Institute of Certified Public Accountants. A review of interim financial information consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Hong Kong Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly we do not express an audit opinion.

CONCLUSION

Based on our review, nothing has come to our attention that causes us to believe that the interim financial information is not prepared, in all material respects, in accordance with HKAS 34.

Deloitte Touche Tohmatsu
Certified Public Accountants

Hong Kong
23 August 2007

CONDENSED CONSOLIDATED INCOME STATEMENT

For the six months ended 30 June 2007

		1.1.2007 to 30.6.2007	1.1.2006 to 30.6.2006
		<i>RMB'000</i>	<i>RMB'000</i>
	<i>Notes</i>	(Unaudited)	(Unaudited)
Turnover		1,744,899	1,617,822
Cost of sales		(1,478,038)	(1,361,029)
Gross profit		266,861	256,793
Other income		29,446	24,412
Selling and distribution costs		(172,897)	(175,361)
Administrative expenses		(58,536)	(58,906)
Finance costs		—	(9,315)
Profit before taxation	4	64,874	37,623
Income tax expense	5	(9,839)	(4,484)
Profit for the period		<u>55,035</u>	<u>33,139</u>
Attributable to:			
Equity holders of the Company		55,398	32,336
Minority interests		(363)	803
		<u>55,035</u>	<u>33,139</u>
Dividends	6	<u>49,645</u>	<u>49,645</u>
Basic earnings per share	7	<u>RMB0.0223</u>	<u>RMB0.0130</u>

CONDENSED CONSOLIDATED BALANCE SHEET

At 30 June 2007

		30.6.2007	31.12.2006
		<i>RMB'000</i>	<i>RMB'000</i>
	<i>Notes</i>	(Unaudited)	(Audited)
Non-current assets			
Property, plant and equipment	8	3,076,883	3,264,722
Prepaid lease payments		42,612	43,207
Intangible assets		60,517	67,212
		<u>3,180,012</u>	<u>3,375,141</u>
Current assets			
Inventories		778,737	960,408
Trade receivables, deposits and prepayments	9	91,816	42,227
Bills receivable	10	621,254	728,148
Prepaid lease payments		1,189	1,189
Bank deposits	11	1,515,288	996,435
Cash and cash equivalent		1,843,356	1,814,530
		<u>4,851,640</u>	<u>4,542,937</u>
Current liabilities			
Trade, bills and other payables	12	1,077,647	974,064
Tax payable		11,124	6,523
		<u>1,088,771</u>	<u>980,587</u>
NET CURRENT ASSETS		<u><u>3,762,869</u></u>	<u><u>3,562,350</u></u>
TOTAL ASSETS LESS CURRENT LIABILITIES		<u><u>6,942,881</u></u>	<u><u>6,937,491</u></u>

	30.6.2007 <i>RMB'000</i> (Unaudited)	31.12.2006 <i>RMB'000</i> (Audited)
Capital and reserves		
Share capital	2,482,268	2,482,268
Share premium and reserves	4,241,521	4,235,768
	<hr/>	<hr/>
Equity attributable to equity holders of the Company	6,723,789	6,718,036
Minority interests	219,092	219,455
	<hr/>	<hr/>
Total equity	6,942,881	6,937,491
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CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 June 2007

	Attributable to equity holders of the Company									
	Share capital	Share premium	Capital reserve	Statutory surplus reserve fund	Statutory public welfare fund	Discretionary surplus reserve fund	Retained profits	Total	Minority interests	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
At 1 January 2006	2,482,268	1,764,905	572,239	354,858	354,269	1,765	1,159,687	6,689,991	178,483	6,868,474
Profit for the period, representing total income for the period	—	—	—	—	—	—	32,336	32,336	803	33,139
Capital contribution from minority interests	—	—	—	—	—	—	—	—	39,192	39,192
2005 final dividend paid	—	—	—	—	—	—	(49,645)	(49,645)	—	(49,645)
Transfer	—	—	—	354,269	(354,269)	—	—	—	—	—
At 30 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>6,672,682</u>	<u>218,478</u>	<u>6,891,160</u>
At 1 January 2007	2,482,268	1,764,905	572,239	715,941	—	1,837	1,180,846	6,718,036	219,455	6,937,491
Profit for the period, representing total income for the period	—	—	—	—	—	—	55,398	55,398	(363)	55,035
2006 final dividend paid	—	—	—	—	—	—	(49,645)	(49,645)	—	(49,645)
At 30 June 2007	<u>2,482,268</u>	<u>1,764,905</u>	<u>572,239</u>	<u>715,941</u>	<u>—</u>	<u>1,837</u>	<u>1,186,599</u>	<u>6,723,789</u>	<u>219,092</u>	<u>6,942,881</u>

CONDENSED CONSOLIDATED CASH FLOW STATEMENT

For the six months ended 30 June 2007

	1.1.2007 to 30.6.2007	1.1.2006 to 30.6.2006
	<i>RMB'000</i>	<i>RMB'000</i>
	(Unaudited)	(Unaudited)
Net cash generated from operating activities	581,700	671,926
Net cash used in investing activities:		
Increase in fixed deposits with banks	(518,853)	(20,237)
Purchase of property, plant and equipment	(3,316)	(5,537)
Interest received	18,938	14,481
Proceeds from disposal of property, plant and equipment	2	22
	<u>(503,229)</u>	<u>(11,271)</u>
Net cash used in financing activities:		
Dividend paid	(49,645)	(49,645)
Repayment bank loans	—	(538,153)
New bank loans raised	—	146,398
Capital contribution from minority shareholder	—	39,192
	<u>(49,645)</u>	<u>(402,208)</u>
Net increase in cash and cash equivalents	28,826	258,447
Cash and cash equivalents at 1 January	1,814,530	1,338,029
Cash and cash equivalents at 30 June	<u><u>1,843,356</u></u>	<u><u>1,596,476</u></u>

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2007

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 (HKAS34) “Interim financial reporting”, issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”).

2. PRINCIPAL ACCOUNTING POLICIES

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

The accounting policies used in the condensed consolidated financial statements are consistent with those followed in the preparation of the Group’s annual financial statements for the year ended 31 December 2006.

In the current interim period, the Group has applied, for the first time, a new standard, amendment and interpretations (“new HKFRSs”) issued by HKICPA, which are effective for the Group’s financial year beginning 1 January 2007.

The adoption of these new HKFRSs had no material effect on the results or financial position of the Group for the current or prior accounting periods. Accordingly, no prior period adjustment has been recognised.

The Group has not early applied the following new standards or interpretations that have been issued but not yet effective.

HKFRS 23 (Revised)	Borrowing Costs ¹
HKFRS 8	Operating Segments ¹
HK(IFRIC) — Int 11	HKFRS 2: Group and Treasury Share Transactions ²
HK(IFRIC) — Int 12	Service Concession Arrangements ³

¹ Effective for annual periods beginning on or after 1 January 2009

² Effective for annual periods beginning on or after 1 March 2007

³ Effective for annual periods beginning on or after 1 January 2008

The directors of the Company anticipate that the application of these standards, or interpretations will have no material financial impact on the results and the financial position of the Group, except for HKFRS 8. The directors have commenced considering the potential impact of HKFRS 8 but is not yet in a position to determine whether HKFRS 8 would have a significant impact on the presentation of segment information.

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 30 June 2007 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	1,023,391	39,733	486,907	135,813	607	58,448	1,744,899
Result							
Segment result	71,859	(16,369)	29,088	(28,679)	(358)	3,396	58,937
Unallocated corporate expenses							(19,317)
Unallocated interest income							25,254
Profit before taxation							64,874
Income tax expense							(9,839)
Profit for the period							55,035

3. SEGMENT INFORMATION (Cont'd)

(ii) Segment information about these businesses for the period ended 30 June 2006 is presented below:

	Light-duty trucks <i>RMB'000</i>	Multi- purposes vehicles <i>RMB'000</i>	Pick-up trucks <i>RMB'000</i>	Heavy- duty trucks <i>RMB'000</i>	Other vehicles <i>RMB'000</i>	Automobile parts and accessories <i>RMB'000</i>	Consolidated <i>RMB'000</i>
Turnover	<u>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>	<u>47,220</u>
Unallocated corporate expenses							(15,844)
Unallocated finance costs							(9,315)
Unallocated interest income							<u>15,562</u>
Profit before taxation							37,623
Income tax expense							<u>(4,484)</u>
Profit for the period							<u>33,139</u>

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 countries outside PRC which accounted for 3.38% of the Group's turnover for the period (six months ended 30 June 2006: 2.17%).

4. PROFIT BEFORE TAXATION

	1.1.2007 to 30.6.2007	1.1.2006 to 30.6.2006
	<i>RMB '000</i>	<i>RMB '000</i>
Profit before taxation has been arrived at after charging:		
Allowance for bad and doubtful debts	—	11,971
Allowance of obsolete inventories	7,086	—
Amortisation of intangible assets (included in cost of sales)	6,695	7,630
Amortisation of prepaid lease payments (included in cost of sales)	595	595
Depreciation of property, plant and equipment	191,145	128,160
Loss on disposal of property, plant and equipment	8	1
Net exchange loss	1,309	—
and after crediting:		
Interest income from bank deposits and balances	25,254	15,562
Net exchange gain	—	4,800
Write back of allowance of obsolete inventories (Note)	—	182
	<u> </u>	<u> </u>

Note: Allowance of obsolete inventories was written back as the related inventories were sold during the period.

5. INCOME TAX EXPENSE

According 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 1 January 2001.

On 16 March 2007, the PRC promulgated the Law of the People’s Republic of China on Enterprise Income Tax (the “New Law”) by Order No. 63 of the President of the People’s Republic of China, which will change the tax rate from 33% statutory rate to 25% statutory rate from 1 January 2008. The directors are of the opinion that there had no material financial impact on the condensed consolidated financial statements of the Group as the Company still entitles the income tax rate for the enterprises located in the western zone.

5. INCOME TAX EXPENSE (Cont'd)

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

	1.1.2007 to 30.6.2007	1.1.2006 to 30.6.2006
	<i>RMB '000</i>	<i>RMB '000</i>
Profit before taxation	64,874	37,623
Tax at the applicable tax rate of 15% (2006: 15%)	9,731	5,643
Tax effect of income not taxable for tax purpose	(167)	(212)
Effect of 10% (2006: 10%) income tax rate granted to a subsidiary	122	(33)
Tax effect of tax loss not recognised	153	—
Over provision in prior year	—	(914)
Income tax expense for the period	9,839	4,484

6. DIVIDENDS

On June 2007, a 2006 final dividend of RMB0.02 per share (2005 final dividend: RMB0.02 per share) was paid to shareholders.

The directors have resolved not to declare an interim dividend for the six months ended 30 June 2007 (six months ended 30 June 2006: nil).

7. 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	
	30.6.2007	30.6.2006
	<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)	55,398	32,336

7. EARNINGS PER SHARE (Cont'd)

Number of shares

	30.6.2007 <i>'000</i>	30.6.2006 <i>'000</i>
Number of shares for the purpose of basic earnings per share	<u>2,482,268</u>	<u>2,482,268</u>

There are no potential dilutive ordinary shares in both periods presented.

8. MOVEMENTS IN PROPERTY, PLANT AND EQUIPMENT

During the period, the Group incurred approximately RMB3,316,000 (six months ended 30 June 2006: RMB8,573,000) on additions to property, plant and equipment to maintain its manufacturing facilities and to upgrade its support facilities.

9. TRADE RECEIVABLES, DEPOSITS AND PREPAYMENTS

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

	30.6.2007 <i>RMB '000</i>	31.12.2006 <i>RMB '000</i>
Subsidiaries of Qingling Group	<u>1,823</u>	<u>1,676</u>

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

9. TRADE RECEIVABLES, DEPOSITS AND PREPAYMENTS (Cont'd)

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

	30.6.2007	31.12.2006
	<i>RMB'000</i>	<i>RMB'000</i>
Within 3 months	24,887	21,727
Between 3 to 6 months	119	8
Between 7 to 12 months	467	5
Between 1 to 2 years	633	1,095
Over 2 years	792	920
	<u>26,898</u>	<u>23,755</u>

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

An accumulated allowance has been made for estimated irrecoverable amount from sales of goods amounting to RMB4,595,000 at both balance sheet dates.

10. BILLS RECEIVABLE

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

	30.6.2007	31.12.2006
	<i>RMB'000</i>	<i>RMB'000</i>
Within 1 month	197,570	219,509
Between 1 to 2 months	106,106	116,342
Between 2 to 3 months	99,153	112,638
Between 4 to 6 months	218,425	279,659
	<u>621,254</u>	<u>728,148</u>

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

11. BANK DEPOSITS

The fixed deposits with banks are with term 6 to 12 months and their respective interest rates are ranging from 2.25% to 3.06% (2006: 2.25% to 2.52%).

12. 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:

	30.6.2007 <i>RMB'000</i>	31.12.2006 <i>RMB'000</i>
Qingling Group	7,819	10,441
Subsidiaries of Qingling Group	39,914	31,173
Isuzu Group	52,235	54,860
	<u>99,968</u>	<u>96,474</u>

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

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

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

	30.6.2007 <i>RMB'000</i>	31.12.2006 <i>RMB'000</i>
Within 3 months	708,241	593,737
Between 3 to 6 months	86,089	76,292
Between 7 to 12 months	1,418	42
Over 12 months	366	421
	<u>796,114</u>	<u>670,492</u>
Other payables	281,533	303,572
	<u>1,077,647</u>	<u>974,064</u>

13. RELATED PARTY TRANSACTIONS

Apart from the amounts due from and to related companies as disclosed in notes 9 and 12, during the period, the Group entered into the following 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	1.1.2007 to 30.6.2007 RMB'000	1.1.2006 to 30.6.2006 RMB'000
Purchases of automobile parts	21,258	24,020
Sales of parts and raw materials for the manufacture of automobile parts	11,850	12,767
Income from renting of moulds and machinery	2,917	2,917
Expenses for renting warehouse	2,915	2,429
Service fee expense	150	150
	<u> </u>	<u> </u>

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

Type of transactions	1.1.2007 to 30.6.2007 RMB'000	1.1.2006 to 30.6.2006 RMB'000
Purchases of automobile parts	34,511	28,698
Sales of parts and raw materials for the manufacture of automobile parts	4,433	3,061
	<u> </u>	<u> </u>

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

Type of transactions	1.1.2007 to 30.6.2007 RMB'000	1.1.2006 to 30.6.2006 RMB'000
Purchases of automobile parts	25,217	23,806
Sales of parts and raw materials for the manufacture of automobile parts	550	562
	<u> </u>	<u> </u>

13. 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

	1.1.2007 to 30.6.2007 RMB'000	1.1.2006 to 30.6.2006 RMB'000
Type of transactions		
Purchases of automobile parts	110,294	122,303
Sales of parts and raw materials for the manufacture of automobile parts	20,483	38,810
	<u> </u>	<u> </u>

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

	1.1.2007 to 30.6.2007 RMB'000	1.1.2006 to 30.6.2006 RMB'000
Type of transactions		
Purchases of automobile parts	10,964	11,968
Sales of parts and raw materials for the manufacture of automobile parts	3,565	3,431
	<u> </u>	<u> </u>

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

	1.1.2007 to 30.6.2007 RMB'000	1.1.2006 to 30.6.2006 RMB'000
Type of transactions		
Purchases of automobile parts	19,567	20,246
Sales of parts and raw materials for the manufacture of automobile parts	6,063	7,767
	<u> </u>	<u> </u>

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

	1.1.2007 to 30.6.2007 RMB'000	1.1.2006 to 30.6.2006 RMB'000
Type of transactions		
Purchases of automobile parts	5,271	3,912
Sales of parts and raw materials for the manufacture of automobile parts	382	334
	<u> </u>	<u> </u>

13. RELATED PARTY TRANSACTIONS (Cont'd)

(2) Transactions with Isuzu Group

Isuzu owns 496,453,654 H-shares representing 20% of the entire issued share capital of the Company and so there is a significant influence to the Company.

Type of transactions	1.1.2007 to 30.6.2007 <i>RMB'000</i>	1.1.2006 to 30.6.2006 <i>RMB'000</i>
Royalties on sale of trucks and other vehicles	11,505	11,682
Sales of accessory sets and other automobile parts and components	47,790	35,091
Purchase of parts and components	288,063	45,365
Purchase of property, plant and equipment	—	6,148
	<u> </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:

	1.1.2007 to 30.6.2007 <i>RMB'000</i>	1.1.2006 to 30.6.2006 <i>RMB'000</i>
Trade sales	<u>706,522</u>	<u>723,257</u>
Trade purchases	<u>175,385</u>	<u>73,021</u>
	30.6.2007 <i>RMB'000</i>	31.12.2006 <i>RMB'000</i>
Trade balances due from other state-controlled entities	<u>146,694</u>	<u>116,610</u>
Trade balances due to other state-controlled entities	<u>162,595</u>	<u>154,740</u>

13. 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 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) Benefits 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 personnel during the six months ended 30 June 2007 is approximately RMB578,000 (six months ended 30 June 2006: RMB639,000).

14. CAPITAL COMMITMENTS

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

	30.6.2007	31.12.2006
	<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	3,974	336

(b) On 28 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 USD42,130,000, approximately RMB320,841,000 to Qingling Isuzu Engine. Qingling Isuzu Engine was granted with business license on 18 May 2007. As at the balance sheet date Qingling Isuzu Engine had not yet commenced operation. The Company made its initial capital injection of USD16,852,000 or approximately RMB128,336,000 to Qingling Isuzu Engine according to the agreement subsequent to the balance sheet date on 17 July 2007.

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

The condensed consolidated 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

	1.1.2007 to 30.6.2007	1.1.2006 to 30.6.2006
	<i>RMB'000</i>	<i>RMB'000</i>
Profit for the period as per condensed consolidated financial statements prepared under Hong Kong Financial Reporting Standards	55,035	33,139
Add: Pre-operating expenses in connection with the formation of Qingling Isuzu (Chongqing) Engine Co., Ltd. not recognised as expense in the income statement prepared under PRC accounting standards and regulations	301	877
Less: Amortisation of intangible assets — electricity usage rights and other miscellaneous intangible assets not included in the financial statements prepared under Hong Kong Financial Reporting Standards	—	(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	(1,112)	(1,929)
Profit for the period as per condensed consolidated financial statements prepared under PRC accounting standards and regulations	54,224	31,726

Impact on condensed consolidated balance sheet

	30.6.2007 <i>RMB'000</i>	31.12.2006 <i>RMB'000</i>
Total equity as per condensed consolidated financial statements prepared under Hong Kong Financial Reporting Standards	6,942,881	6,937,491
Add: Pre-operating expense in connection with formation of Qingling Isuzu (Chongqing) Engine Co., Ltd. not included in the income statement prepared under PRC accounting standards and regulations	2,423	2,122
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>(16,966)</u>	<u>(15,854)</u>
Total equity as per financial statements prepared under PRC accounting standards and regulations	<u><u>6,928,338</u></u>	<u><u>6,923,759</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.

2007 HALF-YEARLY RESULTS

For the six months ended 30 June 2007, the Company sold 15,397 vehicles, an increase of 5.5% over the corresponding period of the previous year. Sales revenue reached RMB1,740 million, an increase of 7.9% over the corresponding period of the previous year. Profit after taxation was RMB55.04 million, representing an year-on-year growth of 66%.

REVIEW OF OPERATION

During the first half of the year, the Company continued to leverage on its superiority in technologies and qualities of products, and enhanced its marketing capabilities and lowered product costs. In face of ferocious market competition, the Company's results continued to advance.

1. The N and F Series commercial vehicles recorded growth in sales as we leveraged on Isuzu's superiority in technology and quality of commercial vehicles. The Company sold 10,209 N and F Series commercial vehicles, representing a growth of 8.2% over the corresponding period of the previous year. Percentage of sales of N and F Series commercial vehicles to total sales continued to increase.
2. Segregation of the regional market to refine our operation and enhance our marketing capabilities. The national market was sub-divided into 7 regions instead of 3 main geographical modules. The functions, responsibilities and assessments of our marketing division were segregated and further enforced, so as to promote our marketing capabilities.
3. With gradual materialization of results of cost reduction activities; further cost control on purchases of raw materials and spare parts; development of management over cost control on manufacturing functions; and intensification of capital management, we attained the objectives of lowering of costs and continuously optimizing the cost competitiveness of our products.
4. The Company promoted advancement in technologies and management together with Isuzu. With an aim to establishment a foundation for further development, we worked with Isuzu in respect of new products development, enhancement of products' quality, fundamental management, marketing and after-sale services.

OUTLOOK

With rapid consolidation of new competitive strengths driven by the joint operation with Isuzu, the Company would progress towards development at a new level.

1. Beaming with the market opportunities brought about by economic development and tightening of environmental laws, the Company would accelerate the development of a new generation of commercial vehicles with Isuzu, enhance product specifications and production technology, minimize production costs and launch such new commercial vehicles as soon as possible in order to expand its market share.
2. By imitating foreign advanced marketing philosophy, the Company would promote 4S dealership and establish new branches, expand sales network, further improve the quality of after-sales services as well as develop new customers from emerging markets so as to build up the competitive strength of marketing.
3. The Company is making progress to put Qingling Isuzu Engine into operation jointly with Isuzu. Leveraging on the advantages from the products, quality technology, marketing and corporate management of Isuzu, the Company will develop Qingling Isuzu Engine into a core business, forming another key supporting business arm of the Company.

The Company firmly believes that it will be able to foster and give full play to its competitive strengths in the remainder of the year and beyond in order to create excellent operating results for our investors.

FINANCIAL RESOURCES AND CASH FLOW POSITION

Owners' equity as at 30 June 2007 increased by 0.09% compared with that as at 31 December 2006. This increment was mainly due to the profit for the period amounted to RMB55,035,000 and the payment of 2006 dividend of RMB49,645,000.

As at 30 June 2007, the Group had no bank borrowings.

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 RMB4,851,640,000, whereas current liabilities amounted to RMB1,088,771,000. As at 30 June 2007, bank deposits, cash and cash equivalent amounted to RMB3,358,644,000.

As at 30 June 2007, no assets has been pledged by the Group as security. The gearing ratio of the Group was 13.56%, 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 21 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

On 16 March 2007, the PRC promulgated the Law of the People’s Republic of China on Enterprise Income Tax (the “New Law”) by Order No. 63 of the President of the People’s Republic of China, which will change the tax rate from 33% statutory rate to 25% statutory rate from 1 January 2008. According 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 1 January 2001. The directors are of the opinion that there had no material financial impact on the condensed consolidated financial statements of the Group as the Company still entitles the income tax rate for the enterprises located in the western zone.

DESIGNATED DEPOSITS

As at 30 June 2007, 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 30 June 2007, the Group had 3,070 employees (2006: 3,050 employees). For the six months ended 30 June 2007, labour cost was RMB35,879,000 (six months ended 30 June 2006: RMB33,611,000). The Group actively provides various training programme to its staff of all levels.

SALE OF STAFF QUARTERS

For the six months ended 30 June 2007, the Group did not sell any staff quarters to its employees.

SHAREHOLDING STRUCTURE

- (I) As at 30 June 2007, 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 30 June 2007, 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:

Long positions in shares of the Company:

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	100.00%	50.10%
Isuzu Motors Ltd	Foreign shares (H Shares)	496,453,654 shares	Beneficial	40.08%	20.00%
Value Partners Limited	Foreign shares (H Shares)	63,358,000 shares	Investment Manager	5.11%	2.55%
Cheah Cheng Hye	Foreign shares (H Shares)	63,358,000 shares (Note)	Interest of Controlled Corporation	5.11%	2.55%

Note: Cheah Cheng Hye has a 35.65% interest in Value Partners Limited and will be deemed to be interested in the 63,358,000 shares held by Value Partners Limited. These 63,358,000 shares represent the same shareholding interest and are therefore duplicated between Value Partners Limited and Cheah Cheng Hye.

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 30 June 2007.

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

As at 30 June 2007, 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 ("Model Code"). For the six months ended 30 June 2007, 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 6 months ended of 30 June 2007. Neither the Company nor any of its subsidiaries purchased or sold any of its listed securities during the 6 months ended 30 June 2007.

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 (the "Code") set out in Appendix 14 to the Listing Rules during the six months ended 30 June 2007.

Code Provision E.1.2 of the 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 2007 Annual General Meeting. Hence, he has signed a power of attorney, appointing the executive Director Mr. Liu Guangming to preside the 2007 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.

MODEL 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.

INDEPENDENT REVIEW

The interim results for the six months ended 30 June 2007 are unaudited, but have been reviewed by Deloitte Touche Tohmatsu, the Company's auditors, in accordance with Hong Kong Standard on Review Engagements 2410 "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the Hong Kong Institute of Certified Public Accountants. The interim results have also been reviewed by the Company's audit committee.

By order of the Board

Wu Yun

Chairman

23 August 2007 at Chongqing, PRC