



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

2009 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 reviewed the interim financial information set out on pages 3 to 23, which comprises the condensed consolidated statement of financial position of Qingling Motors Co., Ltd. as of 30 June 2009 and the related condensed consolidated statement of comprehensive income, statement of changes in equity and statement of cash flows 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 (“HKSRE”) 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
20 August 2009

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the six months ended 30 June 2009

		1.1.2009 to 30.6.2009	1.1.2008 to 30.6.2008
		<i>RMB'000</i>	<i>RMB'000</i>
	<i>Notes</i>	(Unaudited)	(Unaudited)
Revenue	3	1,902,067	1,801,833
Cost of sales		<u>(1,614,705)</u>	<u>(1,475,769)</u>
Gross profit		287,362	326,064
Other income		72,565	68,427
Other expenses		(24)	(3,169)
Selling and distribution costs		(159,728)	(212,542)
Administrative expenses		<u>(68,181)</u>	<u>(70,564)</u>
Profit before tax	4	131,994	108,216
Income tax expense	5	<u>(34,789)</u>	<u>(14,856)</u>
Profit and total comprehensive income for the period		<u>97,205</u>	<u>93,360</u>
Profit for the period and total comprehensive income for the period attributable to:			
Owners of the Company		103,359	92,692
Non-controlling interests		<u>(6,154)</u>	<u>668</u>
		<u>97,205</u>	<u>93,360</u>
Basic earnings per share	7	<u>RMB0.0416</u>	<u>RMB0.0373</u>

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 30 June 2009

	<i>Notes</i>	30.6.2009 <i>RMB'000</i> (Unaudited)	31.12.2008 <i>RMB'000</i> (Audited)
Non-current assets			
Property, plant and equipment	8	2,158,687	2,327,032
Prepaid lease payments	9	49,783	40,829
Investment properties	8	56,089	59,176
Intangible assets	10	55,773	56,128
Deferred tax assets	15	6,952	7,627
Long-term other receivable		—	22,841
		<u>2,327,284</u>	<u>2,513,633</u>
Current assets			
Inventories		690,581	615,594
Trade and other receivables	11	266,809	329,663
Bills receivables	12	480,747	739,232
Prepaid lease payments		1,383	1,189
Bank deposits with original maturity more than three months	13	2,969,761	2,724,367
Bank balances and cash		<u>2,147,542</u>	<u>1,479,624</u>
		<u>6,556,823</u>	<u>5,889,669</u>
Current liabilities			
Trade, bills and other payables	14	1,671,653	1,173,397
Dividend payable to non-controlling interests		581	—
Tax payable		<u>14,545</u>	<u>5,089</u>
		<u>1,686,779</u>	<u>1,178,486</u>
NET CURRENT ASSETS		<u>4,870,044</u>	<u>4,711,183</u>
TOTAL ASSETS LESS CURRENT LIABILITIES		<u><u>7,197,328</u></u>	<u><u>7,224,816</u></u>

	30.6.2009 <i>RMB'000</i> (Unaudited)	31.12.2008 <i>RMB'000</i> (Audited)
<i>Notes</i>		
Capital and reserves		
Share capital	2,482,268	2,482,268
Reserves	<u>4,425,300</u>	<u>4,446,053</u>
Equity attributable to owners of the Company	6,907,568	6,928,321
Non-controlling interests	<u>289,760</u>	<u>296,495</u>
Total equity	<u><u>7,197,328</u></u>	<u><u>7,224,816</u></u>

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 June 2009

	Attributable to owners of the Company								Total RMB'000
	Share capital RMB'000	Share premium RMB'000	Capital reserve RMB'000	Statutory surplus reserve fund RMB'000	Discretionary surplus reserve fund RMB'000	Retained profits RMB'000	Attributable to owners of the company RMB'000	Non- controlling interests RMB'000	
At 1 January 2008 (audited)	2,482,268	1,764,905	572,239	730,911	2,289	1,275,015	6,827,627	292,882	7,120,509
Profit for the period, representing total comprehensive income for the period	—	—	—	—	—	92,692	92,692	668	93,360
Dividend made by a subsidiary to non-controlling shareholder	—	—	—	—	—	—	—	(547)	(547)
Unclaimed H shares dividend of prior year	—	—	—	—	—	1	1	—	1
2007 final dividend paid (Note 6)	—	—	—	—	—	(74,466)	(74,466)	—	(74,466)
At 30 June 2008 (unaudited)	<u>2,482,268</u>	<u>1,764,905</u>	<u>572,239</u>	<u>730,911</u>	<u>2,289</u>	<u>1,293,242</u>	<u>6,845,854</u>	<u>293,003</u>	<u>7,138,857</u>
At 1 January 2009 (audited)	2,482,268	1,764,905	572,239	748,683	2,347	1,357,879	6,928,321	296,495	7,224,816
Profit for the period, representing total comprehensive income for the period	—	—	—	—	—	103,359	103,359	(6,154)	97,205
Dividend made by a subsidiary to non-controlling shareholder	—	—	—	—	—	—	—	(581)	(581)
Unclaimed H shares dividend of prior year	—	—	—	—	—	1	1	—	1
2008 final dividend paid (Note 6)	—	—	—	—	—	(124,113)	(124,113)	—	(124,113)
At 30 June 2009 (unaudited)	<u>2,482,268</u>	<u>1,764,905</u>	<u>572,239</u>	<u>748,683</u>	<u>2,347</u>	<u>1,337,126</u>	<u>6,907,568</u>	<u>289,760</u>	<u>7,197,328</u>

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

For the six months ended 30 June 2009

	1.1.2009 to 30.6.2009 <i>RMB'000</i> (Unaudited)	1.1.2008 to 30.6.2008 <i>RMB'000</i> (Unaudited)
Net cash from operating activities	<u>917,413</u>	<u>507,757</u>
Net cash used in investing activities:		
Increase in fixed deposits with banks	(270,928)	(156,804)
Purchase of property, plant and equipment	(3,155)	(6,131)
Purchase of intangible assets	(9,512)	—
Prepaid lease payment for land use right	(354)	—
Interest received	76,845	30,901
Proceeds from disposal of property, plant and equipment	<u>81,721</u>	<u>4</u>
	<u>(125,383)</u>	<u>(132,030)</u>
Net cash used in financing activities:		
Dividend paid	<u>(124,112)</u>	<u>(74,465)</u>
	<u>(124,112)</u>	<u>(74,465)</u>
Net increase in cash and cash equivalents	667,918	301,262
Cash and cash equivalents at 1 January	<u>1,479,624</u>	<u>1,581,450</u>
Cash and cash equivalents at 30 June	<u><u>2,147,542</u></u>	<u><u>1,882,712</u></u>

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2009

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 (HKAS 34), 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 2008.

In the current interim period, the Group has applied, for the first time, the following new and revised standards, amendments and interpretations (“new and revised HKFRSs”) issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”), which are effective for the Group’s financial year beginning on 1 January 2009.

HKFRSs (Amendments)	Improvements to HKFRSs Issued in 2008, except for the amendment to HKFRS 5 that is effective for annual periods beginning on or after 1 July 2009
HKFRSs (Amendments)	Improvements to HKFRSs Issued in 2009 in relation to the amendment to paragraph 80 of HKAS 39
HKAS 1 (Revised 2007)	Presentation of Financial Statements
HKAS 23 (Revised 2007)	Borrowing Costs
HKAS 32 & 1 (Amendments)	Puttable Financial Instruments and Obligations Arising on Liquidation
HKFRS 1 & HKAS 27 (Amendments)	Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate
HKFRS 2 (Amendment)	Vesting Conditions and Cancellations
HKRS 7 (Amendment)	Improving Disclosures about Financial Instruments
HKFRS 8	Operating Segments
HK (IFRIC)-Int 9 & HKAS 39 (Amendments)	Embedded Derivatives
HK (IFRIC)-Int 13	Customer Loyalty Programmes
HK (IFRIC)-Int 15	Agreements for the Construction of Real Estate
HK (IFRIC)-Int 16	Hedges of a Net Investment in a Foreign Operation

2. PRINCIPAL ACCOUNTING POLICIES (Cont'd)

HKAS 1 (Revised 2007) has introduced a number of terminology changes, including revised titles for the condensed consolidated financial statements, and has resulted in a number of changes in presentation and disclosure. HKFRS 8 is a disclosure Standard that requires the identification of operating segments to be performed on the same basis as financial information that is reported internally for the purpose of allocating resources between segments and assessing their performance. The predecessor Standard, HKAS 14 Segment Reporting, required the identification of two sets of segments (business and geographical) using a risks and returns approach.

The adoption of these new Interpretations has no material effect on the results or financial position of the Group for the current or prior accounting periods. Accordingly, no prior period adjustment is required.

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

HKFRSs (Amendments)	Amendment to HKFRS 5 as part of Improvements to HKFRSs issued in 2008 ¹
HKFRSs (Amendments)	Improvements to HKFRSs issued in 2009 ²
HKFRS 1 (Amendment)	Additional Exemptions for First-time Adopters ⁴
HKAS 27 (Revised in 2008)	Consolidated and Separate Financial Statements ¹
HKAS 39 (Amendment)	Eligible Hedged Items ¹
HKFRS 3 (Revised in 2008)	Business Combinations ¹
HK (IFRIC)-Int 17	Distributions of Non-cash Assets to Owners ¹
HK (IFRIC)-Int 18	Transfers of Assets from Customers ³

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

² Amendments that are effective for annual periods beginning on or after 1 July 2009 or 1 January 2010, as appropriate

³ Effective for transfers on or after 1st July 2009

⁴ Effective for annual periods beginning on or after 1 January 2010

The adoption of HKFRS 3 (Revised 2008) may affect the Group's accounting for business combinations for which the acquisition dates are on or after the beginning of the first annual reporting period beginning on or after 1 July 2009. HKAS 27 (Revised 2008) will affect the accounting treatment for changes in the Group's ownership interest in a subsidiary that do not result in loss of control of the subsidiary. Changes in the Group's ownership interest that do not result in loss of control of the subsidiary will be accounted for as equity transactions. The directors of the Company anticipate that the application of other new and revised standards, amendments or interpretations will have no material impact on the results and the financial position of the Group.

3. SEGMENT INFORMATION

The Group has adopted HKFRS 8 Operating Segments with effect from 1 January 2009. HKFRS 8 requires operating segments to be identified on the basis of internal reports about components of the Group that are regularly reviewed by the chief operating decision maker in order to allocate resources to segments and to assess their performance. In contrast, the predecessor Standard (HKAS 14 Segment Reporting) required an entity to identify two sets of segments (business and geographical), using a risks and returns approach, with the entity's 'system of internal financial reporting to key management personnel' serving only as starting point for the identification of such segments.

The Group is currently engaged in the manufacture and sales of six products — light-duty trucks, multi-purposes vehicles, pick-up trucks, medium and heavy-duty trucks, other vehicles and automobile parts and accessories and the chief operating decision maker (i.e. the Company's directors) also review the segment information by these categories to allocate resources to segments and to assess their performance. The application of HKFRS 8 has not resulted in a redesignation of the Group's reportable segments as compared with the primary reportable segments determined in accordance with HKAS 14.

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
Medium and heavy-duty trucks	—	manufacture and sales of medium and heavy-duty trucks
Other vehicles	—	manufacture and sales of vehicles other than those identified above
Automobile parts and accessories	—	manufacture and sales of automobile parts and accessories

3. SEGMENT INFORMATION (Cont'd)

- (i) Segment information about these businesses for the six months ended 30 June 2009 is presented below:

	Light-duty trucks	Multi- purposes vehicles	Pick-up trucks	Medium and heavy-duty trucks	Other vehicles	Automobile parts and accessories	Consolidated
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Segment revenue	<u>659,965</u>	<u>9,327</u>	<u>766,892</u>	<u>414,989</u>	<u>—</u>	<u>50,894</u>	<u>1,902,067</u>
Result							
Segment result	<u>51,394</u>	<u>3,379</u>	<u>16,123</u>	<u>34,684</u>	<u>—</u>	<u>(4,204)</u>	<u>101,376</u>
Central administration costs							(20,693)
Interest income							<u>51,311</u>
Profit before tax							131,994
Income tax expense							<u>(34,789)</u>
Profit for the period							<u><u>97,205</u></u>

- (ii) Segment information about these businesses for the six months ended 30 June 2008 is presented below:

	Light-duty trucks	Multi- purposes vehicles	Pick-up trucks	Medium and heavy-duty trucks	Other vehicles	Automobile parts and accessories	Consolidated
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Segment revenue	<u>908,939</u>	<u>6,541</u>	<u>585,672</u>	<u>193,400</u>	<u>67</u>	<u>107,214</u>	<u>1,801,833</u>
Result							
Segment result	<u>75,045</u>	<u>2,890</u>	<u>4,073</u>	<u>4,465</u>	<u>65</u>	<u>(4,905)</u>	<u>81,633</u>
Central administration costs							(24,451)
Interest income							<u>51,034</u>
Profit before tax							108,216
Income tax expense							<u>(14,856)</u>
Profit for the period							<u><u>93,360</u></u>

4. PROFIT BEFORE TAX

	1.1.2009 to 30.6.2009	1.1.2008 to 30.6.2008
	<i>RMB'000</i>	<i>RMB'000</i>
Profit before tax has been arrived at after charging:		
Allowance for obsolete inventories	—	1,393
Amortisation of intangible assets (included in cost of sales)	5,153	6,411
Amortisation of prepaid lease payments	595	595
Depreciation of investment properties	3,087	3,087
Depreciation of property, plant and equipment	172,112	141,939
Loss on disposal of property, plant and equipment	24	76
Net foreign exchange loss	—	3,093
and after crediting:		
Interest income from bank deposits and balances	51,311	51,034
Rental income from renting investment properties and equipment	14,808	17,369
Reversal of allowance for obsolete inventories	4,500	—
Net foreign exchange gain	3,342	—
Government grant	1,165	—
	<u>1,165</u>	<u>—</u>

5. INCOME TAX EXPENSE

	1.1.2009 to 30.6.2009	1.1.2008 to 30.6.2008
	<i>RMB'000</i>	<i>RMB'000</i>
Current tax	19,479	16,533
Over provision of current tax in prior year	—	(1,468)
Additional tax paid by a subsidiary	14,635	—
Deferred tax charge (<i>Note 15</i>)	675	(209)
	<u>34,789</u>	<u>14,856</u>

5. INCOME TAX EXPENSE (Cont'd)

The charge for the reported periods can be reconciled to the profit before tax as follows:

	1.1.2009 to 30.6.2009	1.1.2008 to 30.6.2008
	<i>RMB'000</i>	<i>RMB'000</i>
Profit before tax	<u>131,994</u>	<u>108,216</u>
Tax at the applicable tax rate of 15% (2008: 15%)	19,799	16,232
Tax effect of expense that not deductible for tax purpose	238	96
Tax effect of income not taxable for tax purpose	—	(4)
Effect of different tax rate in a subsidiary	117	—
Over provision in prior year	—	(1,468)
Additional tax paid by a subsidiary	<u>14,635</u>	<u>—</u>
Income tax expense for the period	<u>34,789</u>	<u>14,856</u>

According to the Implementation of Transitional Preferential Policies for Enterprise Income Tax by Guo Fa [2007] No. 39, the Group continues to entitle the Enterprise Income Tax rate of 15% which is applicable for companies located in the western zone of China. The Company and Qingling Moulds, a subsidiary of the Company, enjoy 15% income tax rate because they both locate in western zone of China.

重慶慶鈴技術中心“Qingling Technical Centre” is a subsidiary of the Company established in 1998 for research and development activities and has not yet commenced business since its establishment. During the period, Qingling Technical Centre came into an agreement with the local tax bureau and Qingling Technical Centre paid an additional tax for the interest income it had accumulated before commencing business. An amount of RMB14,635,000 was then paid during this period.

6. DIVIDEND

In June 2009, a 2008 dividend of RMB0.05 per share (2007 dividend: RMB0.03 per share) amounting to RMB124,113,000 (2007 dividend: RMB74,466,000) was paid to shareholders as the final dividend for 2008.

The directors have resolved not to declare an interim dividend for the six months ended 30 June 2009 (six months ended 30 June 2008: 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

	30.6.2009 <i>RMB'000</i>	30.6.2008 <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>103,359</u>	<u>92,692</u>

Number of shares

	30.6.2009 <i>'000</i>	30.6.2008 <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 dilutive potential ordinary shares in both periods presented.

8. MOVEMENTS IN PROPERTY, PLANT AND EQUIPMENT AND INVESTMENT PROPERTIES

During the period, the Group acquired property, plant and equipment of approximately RMB3,793,000 (six months ended 30 June 2008: RMB6,131,000) and disposed of property, plant and equipment with carrying amount of approximately RMB26,000 (six months ended 30 June 2008: RMB65,340,000).

During the reported periods, the Group did not acquire or dispose of any investment properties.

9. MOVEMENTS IN PREPAID LEASE PAYMENT

During the period, the Group acquired a land use right at a consideration of approximately RMB9,743,000 of which RMB9,389,000 was already paid as deposit in 2008.

10. MOVEMENTS IN INTANGIBLE ASSETS

During the period, the Group incurred approximately RMB5,188,000 (six months ended 30 June 2008: nil) on additions to intangible assets. An amount of approximately RMB2,551,000 have not been paid as of the balance sheet date (31 December 2008: RMB6,875,000 was unpaid).

11. TRADE AND OTHER RECEIVABLES

At the end of the reporting period, the balance of trade and other receivables includes amounts due from 慶鈴汽車(集團)有限公司 (“Qingling Group” — ultimate holding company of the Group), 慶鈴五十鈴(重慶)發動機有限公司 (“Qingling Isuzu Engine” — joint controlled entity of the Group) and subsidiaries of Qingling Group, as follows:

	30.6.2009	31.12.2008
	<i>RMB'000</i>	<i>RMB'000</i>
Qingling Group	123,370	67,567
Subsidiaries of Qingling Group	8,030	20,082
Qingling Isuzu Engine	—	75,614
	<u>131,400</u>	<u>163,263</u>

All receivables from subsidiaries of Qingling Group are trade in nature and aged within 6 months.

Receivables from Qingling Group of RMB67,853,000 (2008: RMB35,287,000) are trade in nature, of which RMB63,338,000 (2008: RMB35,287,000) are aged within 6 months and RMB4,515,000 (2008: nil) are aged between 7 to 12 months.

Receivables from Qingling Group amounted RMB55,517,000 (2008: RMB32,280,000) are non-trade nature, interest-free.

Receivables from Qingling Isuzu Engine are non-trade nature, interest-free.

11. TRADE AND OTHER RECEIVABLES (Cont'd)

At the end of the reporting period, the aged analysis of trade receivables, net of allowances, of the Group is as follows:

	30.6.2009 <i>RMB'000</i>	31.12.2008 <i>RMB'000</i>
Within 3 months	94,295	84,020
Between 3 to 6 months	10,220	3,047
Between 7 to 12 months	6,691	—
Over 12 months	274	274
	<hr/>	<hr/>
	111,480	87,341
Other receivables	67,287	127,762
Advance to suppliers	88,042	114,560
	<hr/>	<hr/>
	266,809	329,663
	<hr/> <hr/>	<hr/> <hr/>

The average credit period on sales of goods is 3 to 6 months.

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

12. BILLS RECEIVABLES

At the end of the reporting period, the aged analysis of bills receivables of the Group is as follows:

	30.6.2009 <i>RMB'000</i>	31.12.2008 <i>RMB'000</i>
Within 1 month	105,183	171,691
Between 1 to 2 months	85,266	94,375
Between 2 to 3 months	185,388	81,725
Between 4 to 6 months	104,910	391,441
	<hr/>	<hr/>
	480,747	739,232
	<hr/> <hr/>	<hr/> <hr/>

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

13. BANK DEPOSITS WITH ORIGINAL MATURITY MORE THAN THREE MONTHS

The fixed deposits with banks are with term 6 to 12 months and their respective interest rates are ranging from 2.25% to 4.14% (2008: 3.33% to 4.14%) per annum.

14. TRADE, BILLS AND OTHER PAYABLES

- (a) At the end of the reporting period, the balance of trade, bills and other payables included the amounts due to subsidiaries of Qingling Group, Qingling Isuzu Engine and Isuzu Motors Limited (“Isuzu” — the substantial shareholder of the Company) and its wholly-owned subsidiary, Isuzu (China) Holding Co., Ltd. (hereinafter collectively referred to as “Isuzu Group”) as follows:

	30.6.2009	31.12.2008
	<i>RMB'000</i>	<i>RMB'000</i>
Isuzu Group	72,754	74,333
Subsidiaries of Qingling Group	30,510	1,817
Qingling Isuzu Engine	11,816	—
	<u>115,080</u>	<u>76,150</u>

These amounts are in trade nature, unsecured and are repayable in accordance with average credit period on purchases of materials is 3 to 6 months.

- (b) At the end of the reporting period, the aged analysis of trade and bills payables of the Group is as follows:

	30.6.2009	31.12.2008
	<i>RMB'000</i>	<i>RMB'000</i>
Within 3 months	526,900	698,263
Between 3 to 6 months	515,081	138,361
Between 7 to 12 months	19,942	642
Over 12 months	3,169	3,235
	<u>1,065,092</u>	<u>840,501</u>
Other payables	266,093	248,442
Advance from customers	340,468	84,454
	<u>1,671,653</u>	<u>1,173,397</u>

15. DEFERRED TAX ASSETS

The following are the major deferred tax assets recognised and movements thereon during the current period:

	Allowance for inventories RMB'000
At 1 January 2009	7,627
Charge to consolidated statement of comprehensive income for the period	<u>(675)</u>
At 30 June 2009	<u><u>6,952</u></u>

16. RELATED PARTY TRANSACTIONS AND BALANCES

Apart from the amounts due from and to related companies as disclosed in notes 11 and 14, during the period, the Group entered into the following transactions with related parties:

(1) Transactions with Qingling Group and its subsidiaries

- (a) *Qingling Group and its wholly-owned subsidiaries, the ultimate holding company of the Company*

Type of transactions	1.1.2009 to 30.6.2009 RMB'000	1.1.2008 to 30.6.2008 RMB'000
Sales of chassis	38,951	—
Purchases of automobile parts (<i>Note 1</i>)	16,469	23,177
Sales of parts and raw materials for the manufacture of automobile parts (<i>Note 2</i>)	15,184	13,436
Expenses for renting warehouse	3,020	1,535
Expenses for renting equipment	690	690
Service fee expense	150	150
Service fee income	20	77
Sales of property, plant and equipment	—	65,261
Income from renting of moulds and machinery	<u>—</u>	<u>1,546</u>

Note 1: Included in the 2009 amount are RMB2,343,000 and RMB11,990,000 representing the purchases of automobile parts from 重慶慶鈴汽車機加部品製造有限公司(「機加」) and 重慶慶鈴汽車上裝製造有限公司(「上裝」) respectively during the current period. 機加 and 上裝 are both wholly-owned subsidiaries of Qingling Group.

Note 2: Included in the 2009 amount are RMB2,100,000 and RMB12,000,000 representing the sales of parts and raw materials to 機加 and 上裝 respectively during the current period.

16. RELATED PARTY TRANSACTIONS AND BALANCES (Cont'd)

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

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

Type of transactions	1.1.2009 to 30.6.2009 RMB'000	1.1.2008 to 30.6.2008 RMB'000
Sales of parts and raw materials for the manufacture of automobile parts	6,475	6,156
Purchases of automobile parts	5,388	7,034
Expenses for renting equipment	782	535
Service fee income	23	30
	<u> </u>	<u> </u>

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

Type of transactions	1.1.2009 to 30.6.2009 RMB'000	1.1.2008 to 30.6.2008 RMB'000
Purchases of automobile parts	13,377	17,414
Expenses for renting equipment	4,321	2,957
Sales of parts and raw materials for the manufacture of automobile parts	584	625
	<u> </u>	<u> </u>

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

Type of transactions	1.1.2009 to 30.6.2009 RMB'000	1.1.2008 to 30.6.2008 RMB'000
Purchases of automobile parts	132,942	115,861
Sales of parts and raw materials for the manufacture of automobile parts	26,849	27,029
	<u> </u>	<u> </u>

16. RELATED PARTY TRANSACTIONS AND BALANCES (Cont'd)

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

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

Type of transactions	1.1.2009 to 30.6.2009 RMB'000	1.1.2008 to 30.6.2008 RMB'000
Purchases of automobile parts	18,680	14,749
Sales of parts and raw materials for the manufacture of automobile parts	3,772	3,153

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

Type of transactions	1.1.2009 to 30.6.2009 RMB'000	1.1.2008 to 30.6.2008 RMB'000
Purchases of automobile parts	25,414	21,969
Sales of parts and raw materials for the manufacture of automobile parts	6,862	6,722

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

Type of transactions	1.1.2009 to 30.6.2009 RMB'000	1.1.2008 to 30.6.2008 RMB'000
Purchases of automobile parts	3,505	5,054
Sales of parts and raw materials for the manufacture of automobile parts	387	527

16. RELATED PARTY TRANSACTIONS AND BALANCES (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	1.1.2009 to 30.6.2009 RMB'000	1.1.2008 to 30.6.2008 RMB'000
Purchase of parts and components	400,739	301,308
Royalties on sale of trucks and other vehicles	21,382	13,357
Sales of accessory sets and other automobile parts and components	4,495	61,601

(3) Transactions with Qingling Isuzu Engine, a jointly controlled entity of the Group

Type of transactions	1.1.2009 to 30.6.2009 RMB'000	1.1.2008 to 30.6.2008 RMB'000
Purchases of automobile parts	444,951	408,680
Sales of accessory sets and raw materials	328,696	301,265
Income for renting properties and equipments	36,300	31,194
Service fee income	1,582	2,144

Above transactions represented the total balances before elimination of the Group's interests of 50% in the jointly controlled entity based on proportional consolidation.

(4) 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.

16. RELATED PARTY TRANSACTIONS AND BALANCES (Cont'd)

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

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

	1.1.2009 to 30.6.2009 <i>RMB'000</i>	1.1.2008 to 30.6.2008 <i>RMB'000</i>
Trade sales	<u>687,744</u>	<u>655,365</u>
Trade purchases	<u>223,769</u>	<u>236,662</u>
	30.6.2009 <i>RMB'000</i>	31.12.2008 <i>RMB'000</i>
Trade balances due from other state-controlled entities	<u>223,989</u>	<u>240,771</u>
Trade balances due to other state-controlled entities	<u>219,045</u>	<u>170,929</u>

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.

(5) 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 personnel during the six months ended 30 June 2009 is approximately RMB1,010,000 (six months ended 30 June 2008: RMB964,000).

17. COMMITMENTS

- (a) At the end of the reporting period, the Group had the following capital commitments:

	30.6.2009	31.12.2008
	<i>RMB'000</i>	<i>RMB'000</i>
Contracted for but not provided in the condensed consolidation financial statements in respect of purchase of tangible and intangible assets	<u>7,069</u>	<u>2,020</u>

- (b) The Company had the capital commitment US\$12,639,000 (approximately RMB86,383,000) for the third capital injection to Qingling Isuzu Engine at 31 December 2008. Pursuant to the agreement, the Company has contributed such capital during the period and there is no capital commitment outstanding as of 30 June 2009.

2009 HALF-YEARLY RESULTS

For the first half of the year ended 30 June 2009, the company sold 18,744 vehicles, representing an increase of 13.38% over the corresponding period of the previous year. Sales revenue amounted to RMB1,902,067,000, representing an increase of 5.56% over the corresponding period of the previous year. Profit after taxation was RMB97,205,000, representing a year-on-year growth of 4.12%.

REVIEW OF OPERATION

During the first half of the year, the Company has acquired new and strong competitiveness by making every endeavor to introduce drastic modification to the positioning of its products from “outstanding quality and high price” to “outstanding quality and medium price”. Supported by the remarkable competitive strength of our products, not only have we withstood the impact of the financial crisis, but have also further developed our business under such economic hardship. Our outstanding performance is evidenced by our rapid growth of sales and the persistent improvement in our operating results.

1. Expanded market share through the stable mass production of medium priced 700P and 國III 100P. The timely and stable roll out of 700P has gradually satisfied the increasing market demand with the number of vehicles sold in the first half of the year amounting to 1732. Meanwhile, we have also played a leading role and made best uses of social resources to innovate and develop 國III 100P, which features high performance-to-price ratio. The product was launched to market in March and encouraging sales performance was recorded as witnessed by excessive demand over our supply.
2. Continued to enhance production quality under high production efficiency and achieved solid results. In face of the challenging task of increasing production volume of vehicles with streamlined workforce, our production units have spared no time to raise productivity per unit of labor and time, with the result that our production efficiency has surged by approximately 15%. Supported by our efforts in marketing and production, our management departments have successfully improved the quality of staff performance through strengthened internal and fundamental management. With the efficient implementation of various tasks, our operation efficiency has also increased continuously.

3. Achieved excellent results in our quality assurance system. With the ever-expanding market, ongoing upgrade of product structure and the substantial rise in the standard of technical quality, our quality control and manufacturing departments have adjusted their ideology in a proactive manner, established specialized units and carried out works relating to our quality assurance system. With great emphasis being placed on ancillary products and the management of manufacturing process and quality inspection, the quality of our products have reached a higher level.
4. Continued to enhance our marketing efforts under the dual themes of the marketing of 700P and the improvement of sales volume of 100P. Firstly, we have liaised with 4 new distributors in regional markets with high medium truck ownership and comprehensive logistic facilities. Secondly, we have leveraged on the outstanding performance-to-price ratio of our high quality, medium-priced products to extend our marketing networks to different local municipalities, counties and townships with the aim of establishing a total of 65 new branches. Thirdly, we have launched intensive advertising campaign in different regional markets and organized 62 advertising activities in total in order to promote our high quality, medium-priced products.

OUTLOOK

Our years of effort in cost reduction have culminated in the dramatic shift in our product positioning from high performance and high price to high performance and medium price. Building on our top-notch products which enjoy high performance-to-price ratio, our customer base is expanding rapidly and our coverage has spread from high-end markets in the provincial capitals, economic centers and key industries to middle-end markets in local municipalities, counties and townships where retail customers dominate. Such a development has provided room for the Company's sales expansion and sustainable growth.

1. Implement cost control and management through in-house production of high quality, medium-priced components and parts. A scientific cost control and management procedure will be established according to the requirements of keeping costing at medium-level. The operation system will be perfected with the integration of planning, execution and auditing as well as regulated supervision. Within the framework of the high-standard cost control system, the production, quality and equipment management of each production unit will be strengthened in order to achieve stable and mass production of high quality, medium-priced components and parts so as to support the market expansion of our vehicles.

2. Improve product quality by intensifying our efforts in restructuring our quality assurance system. We will focus on and strengthen the quality control system of our highly technical production processes in respect of the key production processes and each procedure of our components and parts factories in light of the customers' feedback on our components and parts received through our after-sales services. At the same time, the quality control over our components and parts purchased will be reinforced with an aim to blocking the inflow of substandard goods. With respect to our in-house components and parts, our targets are to solve the problems identified in our technical, manufacturing and quality control procedures swiftly so as to improve the quality of our products.
3. Highlight our competitiveness in high quality, medium-priced products as our market strength by persistently consolidating our sales and marketing work. Our sales personnel will strive to improve their efficiency by swift and thorough implementation of various sales and marketing projects so as to expand our sales network and customer base to local municipalities, counties and townships markets. Our competitiveness in marketing and high quality, medium-priced products will be fully demonstrated under such strategy. Meanwhile, the collaboration between our sales and marketing departments and the production unit will also be strengthened through information sharing with a view to responding quickly to the market demands.
4. Accelerate the development progress of new products that can satisfy the requirements of broader market with our existing resources of chassis and components and parts. For example, we aim to accelerate our pace in the development, mass production and the launch of 4WD 700P and automatic gear 700P on the basis of our existing 700P vehicle model. Leveraging on domestic and overseas technologies, products and resources, we will also speed up the development, testing and evaluation, mass production and rolling out of the medium-priced F vehicles under development. This will complement our high quality, medium-priced products portfolio and support our expansion in the middle-end market.

For the second half of the year, the Company is confident that our high quality, medium-priced products will fully express their competitiveness and storm the market in full swing. On the other hand, we will persist in the development of new high quality, medium-priced products which will act as new impetus to the growth of the Group in order to deliver outstanding operating results for our investors.

FINANCIAL RESOURCES AND LIQUID FUNDS SITUATION

Shareholders' interest as at 30 June 2009 decreased by 0.30% compared with that as at 31 December 2008. This decrease was mainly due to the aggregate profit attributable to shareholders for the year amounted to approximately RMB103,359,000 and the payment of 2008 dividend approximately RMB124,113,000.

There were no borrowings of the Group as at 30 June 2009. The Group's current assets were mainly Bank balances and cash, Bank deposits with original maturity more than three months, Inventories like raw materials and finished goods, Bills receivables and Trade and other receivables, Prepaid lease payments which amounted to approximately RMB6,556,823,000, whereas current liabilities amounted to approximately RMB1,686,779,000. As at 30 June 2009, Bank balances and cash, Bank deposits with original maturity more than three months amounted to approximately RMB5,117,303,000.

As at 30 June 2009, no assets had been pledged by the Group as security and the gearing ratio of the Group was 18.99%, 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 exchange contracts in order to minimize foreign exchange risks.

PREFERENTIAL TREATMENTS FOR CONSOLIDATED INCOME TAX AND LOCAL TAX

According to the Implementation of Transitional Preferential Policies for Enterprise Income Tax by Guo Fa [2007] No. 39, the Group continues to entitle the Enterprise Income Tax rate of 15% which is applicable for companies located in the western zone of China. The Company and Qingling Moulds, a subsidiary of the Company, enjoy 15% income tax rate because they both locate in western zone of China.

DESIGNATED DEPOSITS

As at 30 June 2009, 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 2009, the Group has 2,935 employees (six months ended 30 June 2008: 3,020 employees). For the six months ended 30 June 2009, labour cost was RMB52,493,000 (six months ended 30 June 2008: RMB51,107,000). The Group actively provides various training programme to its staff of all levels.

SALES OF STAFF QUARTERS

For the six months ended 30 June 2009, the Group did not sell any staff quarters to its employees.

STRUCTURE OF SHAREHOLDING

(1) As at 30 June 2009, 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	about 50.10%
Foreign shares (H shares)	1,238,651,865 shares	about 49.90%

(2) Substantial shareholders

As at 30 June 2009, shareholders other than a director, supervisor or chief executive of the Company having an interest and short positions in 5% or more of the issued share capital of the Company of the relevant classes as recorded in the register of interests in shares and short positions required to be kept by the Company pursuant to Section 336 of the Securities and Futures Ordinance (the “SFO”) were as follows:

Long positions in the shares of the Company:

Name of shareholders	Class of shares	Number of shares	Capacity	Percentage of the relevant 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 Limited	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 30 June 2009.

DIRECTORS’, SUPERVISORS’ AND CHIEF EXECUTIVES’ INTERESTS IN SHARES

As at 30 June 2009, none of the directors, supervisors and chief executive 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 the SFO as recorded in the register required to be kept under Section 352 of the 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 (the “Model Code”). For the six months ended 30 June 2009, none of directors, supervisors and chief executives 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 OR REDEMPTION OF THE COMPANY'S LISTED SECURITIES

There were no purchase, sale or redemption of the Company's listed securities by the Company and its subsidiaries during the six months ended 30 June 2009.

CODE ON CORPORATE GOVERNANCE PRACTICES

The Company endeavours to maintain a high standard of corporate governance and to increase transparency to its shareholders. The Company has adopted sound governance and disclosure practices, and is committed to continuously improve those practices and cultivate an ethical corporate structure.

Except for the deviation specified below, the Company has complied with the code provisions of the Code on Corporate Governance Practices (the "Code") as set out in Appendix 14 of the Rules governing the Listing of Securities on the Stock Exchange (the "Listing Rules") during the six months ended 30 June 2009.

Code Provision E.1.2 of the Code stipulates that the Chairman of the Board of the Company should attend annual general meetings. Owing to an overseas trip to explore the international market, the Chairman of the Board, Mr. WU Yun, has given an apology for not presiding the 2009 annual general meeting. Hence, he has signed an appointing letter, appointing Mr. LIU Guangming, an executive director to attend the 2009 annual general meeting. The Chairman of the Board, Mr. WU Yun, should attend the annual general meeting of the Company unless any exceptional circumstances occur.

ORDINARY HONG KONG RESIDENT AS AN INDEPENDENT NON-EXECUTIVE DIRECTOR

According to the regulations promulgated by the Stock Exchange, any PRC-based company listed in Hong Kong shall engage one Hong Kong resident to act as an independent non-executive director. However, as at the date of this announcement, the Company has not identified a suitable candidate.

QUALIFIED ACCOUNTANT

Since 1 January 2009, the requirements of Rule 3.24 of the Listing Rules had been removed, pursuant to which the Company is no longer required to appoint a qualified accountant. However, the Company's accounting and financial reporting function has accounting staff with adequate qualifications and experience to assist the Company and the Board in fulfilling their continuing financial and accounting related obligations.

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS AND SUPERVISORS

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 six months ended 30 June 2009.

INDEPENDENT REVIEW

The interim results for the six months ended 30 June 2009 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.

DIRECTORS' PARTICULARS

Change in the particulars of the director is set out as follow:

Mr. LONG Tao has been appointed as an independent non-executive director of Beijing North Star Company Limited which is a company listed on the Stock Exchange.

DIRECTORS

As at the date of this report, the Board comprises the following directors:

Executive Directors:

Mr. WU Yun
Mr. GAO Jianmin
Mr. Makoto TANAKA
Mr. Masanori KATAYAMA
Mr. LIU Guangming
Mr. PAN Yong
Mr. YUE Huaqiang

Independent Non-Executive Directors:

Mr. LONG Tao
Mr. SONG Xiaojiang
Mr. XU Bingjin

By Order of the Board
WU Nianqing
Company Secretary

Chongqing, the PRC, 20 August 2009