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

2010 Interim Report

Deloitte.
德勤

INDEPENDENT REVIEW REPORT
TO THE BOARD OF DIRECTORS OF QINGLING MOTORS CO., LTD.
(a Sino-foreign joint venture joint stock 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 22, which comprises the condensed consolidated statement of financial position of Qingling Motors Co., Ltd. (the "Company") and its subsidiaries (collectively referred to as the "Group") as of 30 June 2010 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 34 "Interim Financial Reporting" ("HKAS 34") issued by the Hong Kong Institute of Certified Public Accountants. The directors of the Company 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 inquiries, 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
19 August 2010

Condensed Consolidated Statement of Comprehensive Income

For the six months ended 30 June 2010

		Six months ended	
		30/6/2010	**30/6/2009**
		RMB'000	*RMB'000*
	NOTES	**(Unaudited)**	**(Unaudited)**
Revenue	3	3,010,073	1,902,067
Cost of sales		(2,602,257)	(1,614,705)
Gross profit		407,816	287,362
Other income		78,438	72,565
Other expenses		—	(24)
Distribution and selling expenses		(242,197)	(159,728)
Administrative expenses		(74,518)	(68,181)
Profit before tax	4	169,539	131,994
Income tax expense	5	(25,543)	(34,789)
Profit and total comprehensive income for the period		143,996	97,205
Profit for the period and total comprehensive income for the period attributable to:			
Owners of the Company		143,329	103,359
Non-controlling interests		667	(6,154)
		143,996	97,205
Basic and diluted earnings per share	7	RMB0.0577	RMB0.0416

Condensed Consolidated Statement of Financial Position

At 30 June 2010

	NOTES	**30/6/2010** *RMB'000* **(Unaudited)**	**31/12/2009** *RMB'000* **(Audited)**
Non-current assets			
Property, plant and equipment	8	1,850,474	1,997,183
Prepaid lease payments		48,267	48,958
Investment properties	8	49,915	53,002
Intangible assets		46,618	51,090
Deferred tax assets	9	1,635	3,496
		1,996,909	2,153,729
Current assets			
Inventories		840,160	554,922
Trade and other receivables	10	424,900	367,643
Bills receivables	11	1,133,461	671,170
Prepaid lease payments		1,383	1,383
Bank deposits with original maturity more than three months	12	3,488,773	2,989,816
Bank balances and cash		2,052,733	2,338,507
		7,941,410	6,923,441
Current liabilities			
Trade, bills and other payables	13	2,643,899	1,723,579
Tax payable		15,969	18,308
		2,659,868	1,741,887
NET CURRENT ASSETS		5,281,542	5,181,554
TOTAL ASSETS LESS CURRENT LIABILITIES		7,278,451	7,335,283

	NOTES	30/6/2010	31/12/2009
		RMB'000	*RMB'000*
		(Unaudited)	**(Audited)**
Capital and reserves			
Share capital		2,482,268	2,482,268
Share premium and reserves		4,507,516	4,562,768
Equity attributable to owners of the Company		6,989,784	7,045,036
Non-controlling interests		288,667	290,247
Total equity		7,278,451	7,335,283

Condensed Consolidated Statement of Changes in Equity

For the six months ended 30 June 2010

	Attributable to owners of the Company								
	Share capital	**Share premium**	**Capital reserve**	**Statutory surplus reserve fund**	**Discretionary surplus reserve fund**	**Retained profits**	**Attributable to owners of the Company**	**Non-controlling interests**	**Total**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
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 paid 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)	2,482,268	1,764,905	572,239	748,683	2,347	1,337,126	6,907,568	289,760	7,197,328
At 1 January 2010 (audited)	2,482,268	1,764,905	572,239	775,703	2,347	1,447,574	7,045,036	290,247	7,335,283
Profit for the period, representing total comprehensive income for the period	—	—	—	—	—	143,329	143,329	667	143,996
Dividend paid by a subsidiary to non-controlling shareholder	—	—	—	—	—	—	—	(2,247)	(2,247)
2009 final dividend paid *(Note 6)*	—	—	—	—	—	(198,581)	(198,581)	—	(198,581)
At 30 June 2010 (unaudited)	2,482,268	1,764,905	572,239	775,703	2,347	1,392,322	6,989,784	288,667	7,278,451

Condensed Consolidated Statement of Cash Flows

For the six months ended 30 June 2010

	Six months ended	
	30/6/2010	**30/6/2009**
	RMB'000	*RMB'000*
	(Unaudited)	**(Unaudited)**
Net cash from operating activities	353,751	917,413
Net cash used in investing activities:		
Increase in fixed deposits with banks	(506,928)	(270,928)
Purchase of property, plant and equipment	(10,472)	(3,155)
Purchase of intangible assets	(484)	(9,512)
Prepaid lease payment for land use right	—	(354)
Interest received	56,346	76,845
Proceeds from disposal of property, plant and equipment	22,841	81,721
	(438,697)	(125,383)
Net cash used in financing activities:		
Dividend paid	(198,581)	(124,112)
Dividends paid to non-controlling shareholder	(2,247)	—
	(200,828)	(124,112)
Net (decrease) increase in cash and cash equivalents	(285,774)	667,918
Cash and cash equivalents at 1 January	2,338,507	1,479,624
Cash and cash equivalents at 30 June	2,052,733	2,147,542

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 ("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 2009.

In the current interim period, the Group has applied, for the first time, the following revised standards, amendments and interpretation ("new and revised HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA").

HKFRSs (Amendments)	Amendment to HKFRS 5 as part of Improvements to HKFRSs 2008
HKFRSs (Amendments)	Improvements to HKFRSs 2009
HKAS 27 (Revised)	Consolidated and Separate Financial Statements
HKAS 39 (Amendment)	Eligible Hedged Items
HKFRS 1 (Amendment)	Additional Exemptions for First-time Adopters
HKFRS 2 (Amendment)	Group Cash-settled Share-based Payment Transactions
HKFRS 3 (Revised)	Business Combinations
HK(IFRIC)-Int 17	Distributions of Non-cash Assets to Owners

The Group applies HKFRS 3 (Revised) Business Combinations prospectively to business combinations for which the acquisition date is on or after 1 January 2010. The requirements in HKAS 27 (Revised) Consolidated and Separate Financial Statements in relation to accounting for changes in ownership interests in a subsidiary after control is obtained and for loss of control of a subsidiary are also applied prospectively by the Group on or after 1 January 2010.

As there was no transaction during the current interim period in which HKFRS 3 (Revised) and HKAS 27 (Revised) are applicable, the application of HKFRS 3 (Revised), HKAS 27 (Revised) and the consequential amendments to other HKFRSs had no impact on the condensed consolidated financial statements of the Group for the current or prior accounting periods.

Results of the Group in future periods may be affected by future transactions for which HKFRS 3 (Revised), HKAS 27 (Revised) and the consequential amendments to the other HKFRSs are applicable.

2. PRINCIPAL ACCOUNTING POLICIES (Cont'd)

The application of the other new and revised HKFRSs had no impact on the condensed consolidated financial statements of the Group for the current or prior accounting periods.

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

HKFRSs (Amendments)	Improvements to HKFRSs 2010[1]
HKAS 24 (Revised)	Related Party Disclosures[4]
HKAS 32 (Amendment)	Classification of Rights Issues[2]
HKFRS 1 (Amendment)	Limited Exemption from Comparative HKFRS 7 Disclosures for First-time Adopters[3]
HKFRS 9	Financial Instruments[5]
HK(IFRIC)-Int 14 (Amendment)	Prepayments of a Minimum Funding Requirement[4]
HK(IFRIC)-Int 19	Extinguishing Financial Liabilities with Equity Instruments[3]

1 Effective for annual periods beginning on or after 1 July 2010 and 1 January 2011, as appropriate
2 Effective for annual periods beginning on or after 1 February 2010
3 Effective for annual periods beginning on or after 1 July 2010
4 Effective for annual periods beginning on or after 1 January 2011
5 Effective for annual periods beginning on or after 1 January 2013

HKFRS 9 Financial Instruments introduces new requirements for the classification and measurement of financial assets and will be effective from 1 January 2013, with earlier application permitted. The Standard requires all recognised financial assets that are within the scope of HKAS 39 Financial Instruments: Recognition and Measurement to be measured at either amortised cost or fair value. Specifically, debt investments that (i) are held within a business model whose objective is to collect the contractual cash flows and (ii) have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortised cost. All other debt investments and equity investments are measured at fair value. The application of HKFRS 9 might affect the classification and measurement of the Group's financial assets.

The directors of the Company anticipate that the application of other new and revised standards, amendments or interpretation will have no material impact on the results and the financial position of the Group.

3. SEGMENT INFORMATION

The Group's operating segments, based on information reported to the chief operating decision maker (i.e. the Company's directors) for the purposes of resource allocation and performance assessment 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

The following is an analysis of the Group's revenue and results by operating segment for the period under review:

Six months ended 30 June 2010

	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	1,491,257	10,195	799,150	613,758	395	95,318	3,010,073
Result							
Segment result	39,785	2,022	46,596	17,702	280	(7,245)	99,140
Central administration costs							(14,392)
Interest income							46,774
Other income							29,759
Items related to jointly controlled entities under proportionate consolidation							8,258
Profit before tax							169,539

3. SEGMENT INFORMATION (Cont'd)

Six months ended 30 June 2009

	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	659,965	9,327	766,892	414,989	—	50,894	1,902,067
Result							
Segment result	49,217	3,379	14,359	12,255	—	(4,204)	75,006
Central administration costs							(20,659)
Interest income							49,670
Other income							21,072
Items related to jointly controlled entities under proportionate consolidation							6,905
Profit before tax							131,994

Segment profit (loss) represents the profit (loss) earned or incurred by each segment without allocation of central administration costs, non-recurring income/expenses, and the items related to jointly controlled entities under proportionate consolidation. This is the measure reported to the chief operating decision maker (i.e. the Company's directors) for the purposes of resource allocation and performance assessment.

4. PROFIT BEFORE TAX

	Six months ended	
	30/6/2010	**30/6/2009**
	RMB'000	*RMB'000*
Profit before tax has been arrived at after charging:		
Amortisation of intangible assets (included in cost of sales)	4,526	5,153
Depreciation of investment properties	3,087	3,087
Depreciation of property, plant and equipment	167,259	172,112
Release of prepaid lease payments (included in cost of sales)	691	595
Loss on disposal of property, plant and equipment	—	24
and after crediting:		
Interest income from bank deposits and balances	48,375	51,311
Rental income from renting investment properties and equipment	18,594	14,808
Reversal of allowance for obsolete inventories	12,411	4,500
Net foreign exchange gain	8,630	3,342
Government grant	—	1,165

5. INCOME TAX EXPENSE

	Six months ended	
	30/6/2010	**30/6/2009**
	RMB'000	*RMB'000*
Current tax	23,682	19,479
Additional tax paid by a subsidiary	—	14,635
Deferred tax charge *(Note 9)*	1,861	675
	25,543	34,789

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 重慶慶鈴模具有限公司 ("Qingling Moulds"), a subsidiary of the Company, enjoy 15% income tax rate because they both locate in western zone of China.

6. DIVIDEND

In June 2010, a 2009 dividend of RMB0.08 per share (six months ended 30 June 2009: 2008 dividend of RMB0.05 per share) amounting to RMB198,581,000 (six months ended 30 June 2009: 2008 dividend amounting to RMB124,113,000) was paid to shareholders as the final dividend for 2009.

The directors have resolved not to declare an interim dividend for the six months ended 30 June 2010 (six months ended 30 June 2009: nil).

7. EARNINGS PER SHARE

The calculation of the basic earnings per share attributable to the owners of the Company is based on the following data:

Earnings

	Six months ended	
	30/6/2010	**30/6/2009**
	RMB'000	*RMB'000*
Earnings for the purpose of basic earnings per share (profit for the period attributable to owners of the Company)	143,329	103,359

Number of shares

	Six months ended	
	30/6/2010	**30/6/2009**
	'000	*'000*
Number of shares for the purpose of basic earnings per share	2,482,268	2,482,268

There are no 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 RMB20,550,000 (six months ended 30 June 2009: RMB3,793,000) and did not dispose of any property, plant and equipment (six months ended 30 June 2009: RMB26,000).

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

9. 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 profit or loss	(675)
At 30 June 2009	6,952
At 1 January 2010	3,496
Charge to profit or loss	(1,861)
At 30 June 2010	1,635

10. 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) and subsidiaries of Qingling Group, as follows:

	30/6/2010 *RMB'000*	**31/12/2009** *RMB'000*
Qingling Group	227,452	153,992
Subsidiaries of Qingling Group	22,323	91,014
	249,775	245,006

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

Receivables from Qingling Group of RMB227,452,000 (2009: RMB131,151,000) are in trade nature, all aged within 6 months (2009: RMB79,752,000 aged within 6 months and RMB51,399,000 aged between 7 to 12 months).

10. 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:

	30/6/2010	**31/12/2009**
	RMB'000	*RMB'000*
Within 3 months	226,084	186,232
Between 3 to 6 months	36,473	3,700
Between 7 to 12 months	6,012	51,399
Between 1 to 2 years	1,515	—
Over 2 years	274	274
	270,358	241,605
Other receivables	59,324	32,140
Prepayments	95,218	93,898
	424,900	367,643

The average credit period granted 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 as at 30 June 2010 and 31 December 2009.

11. BILLS RECEIVABLES

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

	30/6/2010	**31/12/2009**
	RMB'000	*RMB'000*
Within 1 month	311,657	113,315
Between 1 to 2 months	180,752	130,259
Between 2 to 3 months	200,728	130,012
Between 4 to 6 months	440,324	297,584
	1,133,461	671,170

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

12. 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 fixed at 2.25% (2009: 2.25% to 2.52%) per annum.

13. 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 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"), subsidiaries of Qingling Group and 慶鈴五十鈴重慶發動機有限公司 ("Qingling Isuzu Engine" — jointly controlled entity of the Group) as follows:

	30/6/2010	**31/12/2009**
	RMB'000	*RMB'000*
Isuzu Group	81,690	77,070
Subsidiaries of Qingling Group	62,012	2,133
Qingling Isuzu Engine	17,818	11,055
	161,520	90,258

These amounts are in trade nature, unsecured, interest free and the credit period granted 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:

	30/6/2010	**31/12/2009**
	RMB'000	*RMB'000*
Within 3 months	1,387,094	888,795
Between 3 to 6 months	131,858	172,336
Between 7 to 12 months	13,757	706
Over 12 months	32,717	32,460
	1,565,426	1,094,297
Accrued selling expenses	280,470	245,726
Value added tax payables	1,712	25,584
Other payables	44,758	36,831
Advance from customers	751,533	321,141
	2,643,899	1,723,579

14. RELATED PARTY TRANSACTIONS AND BALANCES

Apart from the amounts due from and to related companies as disclosed in notes 10 and 13, 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, and its wholly-owned subsidiaries

Type of transactions	Six months ended 30/6/2010 *RMB'000*	30/6/2009 *RMB'000*
Sales of chassis	314,696	38,951
Sales of parts and raw materials for the manufacture of automobile parts *(Note 1)*	30,004	15,184
Purchases of automobile parts *(Note 2)*	14,189	16,469
Expenses for renting warehouse	3,018	3,020
Expenses for renting equipment	690	690
Service fee expense	150	150
Service fee income	27	20

Note 1: Included in the 2010 amount are RMB2,540,000 (2009: RMB2,100,000), RMB22,491,000 (2009: RMB12,000,000) and RMB4,726,000 (2009: nil) representing the sales of parts and raw materials to重慶慶鈴汽車機加部品製造有限公司(「機加」), 重慶慶鈴汽車上裝製造有限公司(「上裝」) and 重慶慶鈴汽車底盤部品有限公司(「底盤」) respectively during the current period. 機加, 上裝 and 底盤 are all wholly-owned subsidiaries of Qingling Group.

Note 2: Included in the 2010 amount are RMB3,179,000 (2009: RMB2,343,000), RMB8,659,000 (2009: RMB11,990,000) and RMB2,262,000 (2009: nil) representing the purchases of automobile parts from 機加, 上裝 and 底盤 respectively during the current period.

14. 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	**Six months ended 30/6/2010** *RMB'000*	**30/6/2009** *RMB'000*
Sales of parts and raw materials for the manufacture of automobile parts	11,446	6,475
Purchases of automobile parts	10,138	5,388
Expenses for renting equipment	946	782
Assembling expenses	32	—
Service fee income	16	23

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

Type of transactions	**Six months ended 30/6/2010** *RMB'000*	**30/6/2009** *RMB'000*
Purchases of automobile parts	21,564	13,377
Expenses for renting equipment	5,231	4,321
Sales of parts and raw materials for the manufacture of automobile parts	839	584

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

Type of transactions	**Six months ended 30/6/2010** *RMB'000*	**30/6/2009** *RMB'000*
Purchases of automobile parts	207,098	132,942
Sales of parts and raw materials for the manufacture of automobile parts	31,842	26,849

14. 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	Six months ended 30/6/2010 *RMB'000*	30/6/2009 *RMB'000*
Purchases of automobile parts	30,454	18,680
Sales of parts and raw materials for the manufacture of automobile parts	6,638	3,772

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

Type of transactions	Six months ended 30/6/2010 *RMB'000*	30/6/2009 *RMB'000*
Purchases of automobile parts	42,328	25,414
Sales of parts and raw materials for the manufacture of automobile parts	4,168	6,862

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

Type of transactions	Six months ended 30/6/2010 *RMB'000*	30/6/2009 *RMB'000*
Purchases of automobile parts	6,487	3,505
Sales of parts and raw materials for the manufacture of automobile parts	621	387

14. 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 on the Company.

Type of transactions	Six months ended 30/6/2010	30/6/2009
	RMB'000	*RMB'000*
Purchase of parts and components	828,170	400,739
Royalties on sale of trucks and other vehicles	32,112	21,382
Sales of accessory sets and other automobile parts and components	21,584	4,495

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

Type of transactions	Six months ended 30/6/2010	30/6/2009
	RMB'000	*RMB'000*
Purchases of automobile parts	697,242	444,951
Sales of accessory sets and raw materials	519,979	328,696
Income for renting properties and equipments	39,360	36,300
Service fee income	2,081	1,582

Above transactions represented the total amounts 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.

14. 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:

	Six months ended 30/6/2010 *RMB'000*	Six months ended 30/6/2009 *RMB'000*
Trade sales	1,030,061	687,744
Trade purchases	253,721	223,769
Purchase of property, plant and equipment	12,568	—

	30/6/2010 *RMB'000*	31/12/2009 *RMB'000*
Trade and other balances due to other state-controlled entities	328,670	194,316
Trade and other balances due from other state-controlled entities	406,941	211,546

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 2010 is approximately RMB1,357,000 (six months ended 30 June 2009: RMB1,010,000).

15. COMMITMENTS

At the end of the reporting period, the Group had the following capital commitments:

	30/6/2010	**31/12/2009**
	RMB'000	*RMB'000*
Contracted for but not provided in the condensed consolidated financial statements in respect of acquisition of property, plant and equipment	8,238	3,260
Authorised but not contracted for in respect of acquisition of property, plant and equipment	207,610	—

2010 Half-Yearly Results

For the first half of the year ended 30 June 2010, the Company sold 30,109 vehicles, representing an increase of 60.63% over the corresponding period of the previous year. Sales revenue amounted to RMB3,010,073,000, representing an increase of 58.25% over the corresponding period of the previous year. Profit after taxation was RMB143,996,000, representing a year-on-year growth of 48.14%.

REVIEW OF OPERATION

During the first half of the year, the Company has introduced three groups of high quality, medium-priced products (light-duty, medium-duty vehicles and pick-ups) into the high-end and mid-end markets to further capture the market shares. The sales volume of products grew dramatically and the operating results improved remarkably. Meanwhile, the Company achieved positive results on top of its manufacturing operation during the period, enhanced the production capacity, the product development capacity and its efforts in marketing.

1. Considerably enhanced the competitiveness of products: the Company introduced FTR medium-priced medium-duty commercial vehicles in April this year, providing three groups of high quality, medium-priced products (light-duty (國III 100P and 600P), medium-duty vehicles (700P and FTR medium-priced) and pick-ups (4J low-powered and 4K high-powered 國III diesel pick-ups)) to further increase the market shares.

2. Strove to increase its capacity in production and products delivery so as to meet the dramatic growth in the market demand: (i) the Company has furthered its efforts in improving the precision of equipment and moulds for enhancing the technologies; (ii) the Company has optimized the product structure for increasing the production capacity of major products; (iii) the Company has also adopted stringent control over the production process for lean operation.

3. Further improved the quality assurance system on top of the existing quality management system and work procedures: (i) the Company strove to perfect the quality management system with respect to the quality inspection and implementation of control measures on components and parts produced internally and procured externally; (ii) the Company has fully adopted the Isuzu quality management method, and pursuant to which the Company would issue PPR form (Production Problem Research Form (產品質量問題調查處理表)) to manufacturing units which have produced substandard goods and urge them to analyze the problems by studying the technologies manufacturing system and quality inspection system and to provide measures to rectify the problems on quality; (iii) the Company would also convene meetings with suppliers to urge them to enhance their respective capabilities in increasing their supplies and improving their standard in product quality assurance.

4. Further sharpened the competitiveness of sales and marketing: (i) the Company has engaged new distributors for medium-duty vehicles and has had substantial progress in expanding the network of new distributors for light-duty vehicles and branches in local municipalities, with 20 newly-identified distributors for medium-duty vehicles and 48 new distributors and branches for light-duty vehicles were newly engaged; (ii) the Company furthered its efforts in intensively undertaking more than 100 promotional activities in relation to all series of high quality, medium-priced products to promote the products in provincial capitals, particularly in local municipalities, counties and townships so as to further capture the competitors' market shares.

5. Introduced four projects for the expansion of production capacity: (i) the Company has initiated the projects on the expansion of its capacity in assembly: the newly-built T/U assembly lines as well as 700P and N series of assembly lines increased the production capacity of Qingling assembly from 80,000 units to 200,000 units; (ii) the Company improved its production capacity for internally produced components and parts as well as furthered its procurement for the external supply of components and parts with a view to eliminating the issue of supply shortage while procuring further supplies from suppliers and identifying new suppliers; (iii) the Company also improved its capability in the development of engines, vehicles and chassis as well as enhanced its capability in research and development of our core technologies including the emission, oil-consumption and safety of vehicles and engines; (iv) the Company also enhanced its efforts in sales and marketing as well as in improving its after-sales services by speeding up the development of new distributors for medium-duty vehicles and the expansion of the network of new distributors for light-duty vehicles and branches in local municipalities. The above four projects are scheduled to be gradually completed in 2010.

OUTLOOK

As the Company's three groups of high quality, medium-priced products have further captured the market shares in the high-end and mid-end markets, our market has rapidly extended from the eastern coastal developed areas, provincial capitals and economic center cities to local municipalities, counties and townships with broad market and territories. Our customer base has also changed correspondingly from high-end customers such as monopoly industries, large-sized logistic enterprises and refitted vehicles enterprises to ordinary individual customers in the mid-end market, attracting customers from both high-end and mid-end markets. Our manufacturing operation will continue to undergo rapid growth.

1. Further enhance the ability of production and delivery: (i) the Company will continue to strengthen the production management to increase the output; (ii) the Company will strengthen the assurance of merchandising, equipment and quality; and (iii) the Company will further optimize the standard of precision of equipment and moulds to improve technologies.

2. With the implementation of Isuzu quality management method for enhancing the quality of goods, the Company will further its efforts in monitoring the implementation of PPR forms mechanism and its supervision on the inspection of product quality and control procedures.

3. Further improve its capability in sales and marketing and the quality of after-sales services: (i) the Company, with the newly formulated standards for distributors for light-duty vehicles and branches, will help the existing distributors and branches to enhance their capabilities in sales and marketing and in after-sales services and develop new distributors and establish branches in relatively undeveloped areas; (ii) the Company will also help and monitor the existing distributors for medium-duty vehicles to rapidly expand the operation scale, and increase the capability in after-sales services while accelerating its pace in the development of new distributors.

4. Implement four projects in relation to the enhancement of the production and sales and technologies to expand the assembly capacity based on the established target and work schedule.

For the second half of the year, the Company is confident that our three groups of high quality, medium-priced products will continue to further increase the market shares. Meanwhile, the Company will carry out four projects, including the expansion of assembly capacity, for laying a strong foundation on manufacturing and sales as well as technologies with a view to continuing the expansion of scale of the manufacturing and sales of Qingling and delivering outstanding operating results for our investors.

Financial Resources and Liquid Funds Situation

Shareholders' interest as at 30 June 2010 decreased by 0.78% compared with that as at 31 December 2009. This decrease was mainly due to the aggregate profit attributable to shareholders for the year amounted to approximately RMB143,329,000 and the payment of 2009 dividend approximately RMB198,581,000.

There were no borrowings of the Group as at 30 June 2010. 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 RMB7,941,410,000, whereas current liabilities amounted to approximately RMB2,659,868,000. As at 30 June 2010, bank balances and cash, bank deposits with original maturity more than three months amounted to approximately RMB5,541,506,000.

As at 30 June 2010, no assets had been pledged by the Group as security and the gearing ratio of the Group was 26.76%, 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 2010, 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 2010, the Group has 3,130 employees (six months ended 30 June 2009: 2,935 employees). For the six months ended 30 June 2010, labour cost was RMB66,051,000 (six months ended 30 June 2009: RMB52,493,000). The Group actively provides various training programme to its staff of all levels.

Sales and Staff Quarters

For the six months ended 30 June 2010, the Group did not sell any staff quarters to its employees.

Structure of Shareholding

(1) As at 30 June 2010, 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 2010, 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 2010.

Directors', Supervisors' and Chief Executives' Interests in Shares

As at 30 June 2010, 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 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 2010, 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 2010.

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.

The Company has complied with the code provisions of the Code on Corporate Governance Practices 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 2010.

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 report, the Company has not identified a suitable candidate.

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 2010.

INDEPENDENT REVIEW

The interim results for the six months ended 30 June 2010 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

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, 19 August 2010