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

2011 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 2011 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
24 August 2011

Condensed Consolidated Statement of Comprehensive Income

For the six months ended 30 June 2011

		Six months ended	
		30/6/2011	**30/6/2010**
		RMB'000	*RMB'000*
	NOTES	**(Unaudited)**	**(Unaudited)**
Revenue	3	4,079,772	3,010,073
Cost of sales		(3,537,164)	(2,602,257)
Gross profit		542,608	407,816
Other income		81,212	78,438
Other expenses		(6)	—
Distribution and selling expenses		(304,874)	(242,197)
Administrative expenses		(89,283)	(74,518)
Profit before tax	4	229,657	169,539
Income tax expense	5	(34,074)	(25,543)
Profit and total comprehensive income for the period		195,583	143,996
Profit for the period and total comprehensive income for the period attributable to:			
Owners of the Company		192,275	143,329
Non-controlling interests		3,308	667
		195,583	143,996
Earnings per share			
Basic and diluted	7	RMB0.0775	RMB0.0577

Condensed Consolidated Statement of Financial Position

At 30 June 2011

	NOTES	30/6/2011 *RMB'000* (Unaudited)	31/12/2010 *RMB'000* (Audited)
Non-current assets			
Property, plant and equipment	8	1,682,857	1,726,369
Prepaid lease payments		46,884	47,575
Investment properties	8	43,742	46,828
Intangible assets		39,228	43,780
Deferred tax assets	9	4,322	4,322
		1,817,033	1,868,874
Current assets			
Inventories		837,614	1,271,416
Trade and other receivables	10	733,326	646,981
Bills receivables	11	2,244,289	1,207,181
Prepaid lease payments		1,383	1,383
Bank deposits with original maturity more than three months	12	3,444,809	3,707,722
Bank balances and cash		1,194,707	1,683,709
		8,456,128	8,518,392
Current liabilities			
Trade, bills and other payables	13	2,864,292	2,915,964
Tax liabilities		23,941	33,523
		2,888,233	2,949,487
Net current assets		5,567,895	5,568,905
Total assets less current liabilities		7,384,928	7,437,779

	NOTES	30/6/2011 RMB'000 (Unaudited)	31/12/2010 RMB'000 (Audited)
Capital and reserves			
Share capital		2,482,268	2,482,268
Share premium and reserves		4,609,902	4,665,854
Equity attributable to owners of the Company		7,092,170	7,148,122
Non-controlling interests		292,758	289,657
Total equity		7,384,928	7,437,779

Condensed Consolidated Statement of Changes in Equity

For the six months ended 30 June 2011

	Attributable to owners of the Company								
	Share capital	**Share premium**	**Capital reserve**	**Statutory surplus reserve fund**	**Discretionary surplus reserve fund**	**Retained profits**	**Total**	**Non-controlling interests**	**Total equity**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
For the six months ended 30 June 2010 (unaudited)									
At 1 January 2010	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 interest	—	—	—	—	—	—	—	(2,247)	(2,247)
2009 final dividend paid (Note 6)	—	—	—	—	—	(198,581)	(198,581)	—	(198,581)
At 30 June 2010	2,482,268	1,764,905	572,239	775,703	2,347	1,392,322	6,989,784	288,667	7,278,451
For the six months ended 30 June 2011 (unaudited)									
At 1 January 2011	2,482,268	1,764,905	572,239	809,008	2,347	1,517,355	7,148,122	289,657	7,437,779
Profit for the period, representing total comprehensive income for the period	—	—	—	—	—	192,275	192,275	3,308	195,583
Dividend paid by a subsidiary to non-controlling interest	—	—	—	—	—	—	—	(207)	(207)
2010 final dividend paid (Note 6)	—	—	—	—	—	(248,227)	(248,227)	—	(248,227)
At 30 June 2011	2,482,268	1,764,905	572,239	809,008	2,347	1,461,403	7,092,170	292,758	7,384,928

Condensed Consolidated Statement of Cash Flows

For the six months ended 30 June 2011

	Six months ended	
	30/6/2011	**30/6/2010**
	RMB'000	*RMB'000*
	(Unaudited)	**(Unaudited)**
Net cash (used in) from operating activities	(499,557)	353,751
Net cash from (used in) investing activities:		
Purchase of property, plant and equipment	(60,728)	(10,472)
Purchase of intangible assets	—	(484)
Decrease (increase) in bank deposits with original maturity more than three months	254,483	(506,928)
Interest received	65,232	56,346
Proceeds from disposal of property, plant and equipment	2	22,841
	258,989	(438,697)
Net cash used in financing activities:		
Dividends paid	(248,227)	(198,581)
Dividends paid to non-controlling interest	(207)	(2,247)
	(248,434)	(200,828)
Net decrease in cash and cash equivalents	(489,002)	(285,774)
Cash and cash equivalents at 1 January	1,683,709	2,338,507
Cash and cash equivalents at 30 June, represented by bank balances and cash	1,194,707	2,052,733

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2011

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 (the "Listing Rules") on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") and with Hong Kong Accounting Standard 34 ("HKAS 34"), Interim Financial Reporting.

2. PRINCIPAL ACCOUNTING POLICIES

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

The accounting policies and methods of computation used in the condensed consolidated financial statements for the six months ended 30 June 2011 are the same as those followed in the preparation of the Group's annual financial statements for the year ended 31 December 2010.

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

- Improvements to HKFRSs issued in 2010
- HKAS 24 (as revised in 2009) Related Party Disclosure
- Amendments to HKAS 32 Classification of Rights Issues
- Amendments to HK(IFRIC)-Int 14 Prepayments of a Minimum Funding Requirement
- HK(IFRIC)-Int 19 Extinguishing Financial Liabilities with Equity Instruments

The application of the above new or revised HKFRSs in the current interim period has had no material effect on the amounts reported in these condensed consolidated financial statements and disclosures set out in these condensed consolidated financial statements.

The Group has not early applied new or revised standards that have been issued but are not yet effective. The following new or revised standards that have been issued after the date the consolidated financial statements for the year ended 31 December 2010 were authorised for issuance and are not yet effective:

HKFRS 10	Consolidated Financial Statements[1]
HKFRS 11	Joint Arrangements[1]
HKFRS 12	Disclosures of Interests in Other Entities[1]
HKFRS 13	Fair Value Measurement[1]
HKAS 1 (Amendments)	Presentation of Items of Other Comprehensive Income[2]
HKAS 19 (as revised in 2011)	Employee Benefits[1]
HKAS 27 (as revised in 2011)	Separate Financial Statements[1]
HKAS 28 (as revised in 2011)	Investments in Associates and Joint Ventures[1]

[1] Effective for annual periods beginning on or after 1 January 2013

[2] Effective for annual periods beginning on or after 1 July 2012

2. PRINCIPAL ACCOUNTING POLICIES (Cont'd)

The directors of the Company are still in the process of assessing the impacts of application of the new and revised standards, amendments or interpretation will have 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 segments for the period under review:

Six months ended 30 June 2011

	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	1,964,764	12,588	1,001,893	751,976	—	348,551	4,079,772
Result							
Segment profit	40,541	1,147	86,088	14,113	—	8,704	150,593
Central administration costs							(16,347)
Interest income							54,890
Other income							23,972
Items related to jointly controlled entities under proportionate consolidation							16,549
Group's profit before tax							229,657

3. SEGMENT INFORMATION (Cont'd)

Six months ended 30 June 2010

	Light-duty trucks RMB'000	Multi-purposes vehicles RMB'000	Pick-up trucks RMB'000	Medium and heavy-duty trucks RMB'000	Other vehicles RMB'000	Automobile parts and accessories RMB'000	Consolidated RMB'000
Segment revenue	1,491,257	10,195	799,150	613,758	395	95,318	3,010,073
Result							
Segment profit (loss)	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
Group's profit before tax							169,539

Segment profit (loss) represents the profit (loss) earned or incurred by each segment without allocation of central administration costs, non-recurring income, 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 30/6/2011 *RMB'000*	30/6/2010 *RMB'000*
Profit before tax has been arrived at after charging:		
Depreciation of property, plant and equipment	108,249	167,259
Amortisation of intangible assets (included in cost of sales)	4,552	4,526
Depreciation of investment properties	3,087	3,087
Release of prepaid lease payments (included in cost of sales)	691	691
Loss on disposal of property, plant and equipment	6	—
and after crediting:		
Interest income from bank deposits and balances	56,802	48,375
Rental income from renting investment properties and equipment	15,301	18,594
Net foreign exchange gain	4,790	8,630
Government grant	2,042	—
Reversal of allowance for obsolete inventories	—	12,411

5. INCOME TAX EXPENSE

	Six months ended 30/6/2011 *RMB'000*	30/6/2010 *RMB'000*
Current tax	34,074	23,682
Deferred tax charge *(Note 9)*	—	1,861
Income tax expense	34,074	25,543

According to the Notice of Certain Tax Policies for Implementation of Exploration and Development of Western Zone (Cai Shui [2011] No. 58), a company located in the western zone of the People's Republic of China ("PRC") and engaged in the business encouraged by the PRC government continues to be entitled to the Enterprise Income Tax rate of 15%. Government authorities will issue the Encouraged Industries Catalog in the Western Zone ("Industries Catalog") separately. The Group has fulfilled the issued Industries Catalog, and will be subject to the re-certification by the competent taxation authority to fulfil the new Industries Catalog. The Company, 重慶慶鈴模具有限公司 ("Qingling Moulds"), a subsidiary of the Company, and Qingling Isuzu Engine, a jointly controlled entity all enjoy 15% income tax rate effective from the beginning of year 2011 because they all locate in the western zone of the PRC and are engaged in the business encouraged by the PRC government.

6. DIVIDEND

During the current interim period, a final dividend of RMB0.10 per share in respect of the year ended 31 December 2010 (2010: RMB0.08 per share in respect of the year ended 31 December 2009) was declared and paid to the owners of the Company. The aggregate amount of the final dividend declared and paid in the current interim period amounted to RMB248,227,000 (six months ended 30 June 2010: RMB198,581,000). The directors have resolved not to declare an interim dividend for the six months ended 30 June 2011 (six months ended 30 June 2010: 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:

	Six months ended	
	30/6/2011	**30/6/2010**
	RMB'000	*RMB'000*
Earnings		
Earnings for the purpose of basic earnings per share (profit for the period attributable to owners of the Company)	192,275	143,329

	Six months ended	
	30/6/2011	**30/6/2010**
	'000	*'000*
Number of shares		
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 current interim period, the Group disposed of certain plant and machinery with an aggregate carrying amount of RMB8,000 (six months ended 30 June 2010: nil) for cash proceeds of RMB2,000 (six months ended 30 June 2010: RMB22,841,000), resulting in a loss on disposal of RMB6,000 (six months ended 30 June 2010: nil).

In addition, during the period, the Group acquired property, plant and equipment of approximately RMB64,745,000 (six months ended 30 June 2010: RMB20,550,000) on construction of new manufacturing lines and acquisition of equipment in order to expand its production capacities.

9. DEFERRED TAX ASSETS

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

	Allowance for inventories *RMB'000*	Impairment of property, plant and equipment *RMB'000*	Total *RMB'000*
As at 1 January 2010	3,496	—	3,496
Charge to profit or loss	(1,861)	—	(1,861)
As at June 2010	1,635	—	1,635
Credit to profit or loss	1,913	774	2,687
As at 31 December 2010 and 30 June 2011	3,548	774	4,322

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:

	30/6/2011 *RMB'000*	**31/12/2010** *RMB'000*
Qingling Group	431,849	224,795
Subsidiaries of Qingling Group	48,818	125,037
	480,667	349,832

Receivables from Qingling Group of RMB430,783,000 (31 December 2010: RMB224,795,000) are in trade nature, all aged within 6 months (31 December 2010: RMB208,361,000 are aged within 6 months and RMB16,434,000 are aged over 6 months).

Receivables from Qingling Group amounted RMB1,066,000 (31 December 2010: nil) are non-trade nature, interest-free.

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

	30/6/2011	31/12/2010
	RMB'000	*RMB'000*
Within 3 months	478,891	192,476
Between 3 to 6 months	41,170	152,201
Between 7 to 12 months	129	329
Between 1 to 2 years	966	16,586
Over 2 years	1,255	19
	522,411	361,611
Other receivables	10,390	35,318
Prepaid value-added tax	73,936	109,978
Prepayments	126,589	140,074
	733,326	646,981

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 2011 and 31 December 2010.

11. BILLS RECEIVABLES

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

	30/6/2011	31/12/2010
	RMB'000	*RMB'000*
Within 1 month	518,650	309,036
Between 1 to 2 months	365,823	274,125
Between 2 to 3 months	397,238	188,887
Between 4 to 6 months	962,578	435,133
	2,244,289	1,207,181

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 from 2.25% to 3.25% (31 December 2010: 2.25% to 2.75%) 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:

	30/6/2011	**31/12/2010**
	RMB'000	*RMB'000*
Isuzu Group	69,468	88,052
Subsidiaries of Qingling Group	34,331	8,618
Qingling Isuzu Engine	29,330	31,570
	133,129	128,240

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:

	30/6/2011	**31/12/2010**
	RMB'000	*RMB'000*
Within 3 months	1,716,729	1,332,522
Between 3 to 6 months	40,656	228,535
Between 7 to 12 months	1,723	3,531
Between 1 to 2 years	40,005	48,366
Over 2 years	2,127	2,156
	1,801,240	1,615,110
Advance from customers	736,085	970,507
Accrued selling expenses	289,138	270,652
Other payables	37,400	40,033
Value added tax payables	429	19,662
	2,864,292	2,915,964

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

	Six months ended	
Type of transactions	**30/6/2011**	**30/6/2010**
	RMB'000	*RMB'000*
Sales of chassis	499,000	314,696
Purchases of automobile parts *(Note 1)*	72,127	14,189
Sales of parts and raw materials for the manufacture of automobile parts *(Note 2)*	43,004	30,004
Expenses for renting warehouse	3,020	3,018
Expenses for renting equipment	690	690
Service fee expense	162	150
Service fee income	—	27

Note 1: Included in the 2011 amount are RMB23,433,000 (2010: RMB3,179,000), RMB3,089,000 (2010: RMB8,659,000), RMB45,385,000 (2010: RMB2,262,000) and RMB220,000 (2010: RMB89,000) representing the purchases of automobile parts from 重慶慶鈴汽車機加部品製造有限公司 ("Qingling Jijia"), 重慶慶鈴汽車上裝製造有限公司 ("Qingling Shangzhuang"), 重慶慶鈴汽車底盤部品有限公司 ("Qingling Chassis") and Qingling Group respectively during the current period. Qingling Jijia, Qingling Shangzhuang and Qingling Chassis are all wholly-owned subsidiaries of Qingling Group.

Note 2: Included in the 2011 amount are RMB3,201,000 (2010: RMB2,540,000), RMB33,463,000 (2010: RMB22,491,000), RMB6,311,000 (2010: RMB4,726,000) and RMB29,000 (2010: RMB247,000) representing the sales of parts and raw materials to Qingling Jijia, Qingling Shangzhuang, Qingling Chassis and Qingling Group 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, a subsidiary of Qingling Group

Type of transactions	**Six months ended 30/6/2011** *RMB'000*	**30/6/2010** *RMB'000*
Sales of parts and raw materials for the manufacture of automobile parts	10,676	11,446
Purchases of automobile parts	11,845	10,138
Expenses for renting equipment	1,312	946
Sales of moulds	334	—
Assembling income	138	—
Assembling expenses	—	32
Service fee income	—	16

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

Type of transactions	**Six months ended 30/6/2011** *RMB'000*	**30/6/2010** *RMB'000*
Purchases of automobile parts	32,905	21,564
Sales of moulds	8,563	—
Expenses for renting equipment	6,885	5,231
Sales of parts and raw materials for the manufacture of automobile parts	1,566	839

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

Type of transactions	**Six months ended 30/6/2011** *RMB'000*	**30/6/2010** *RMB'000*
Purchases of automobile parts	119,791	207,098
Sales of parts and raw materials for the manufacture of automobile parts	6,556	31,842
Purchases of property, plant and equipment	3,590	—
Assembling income	285	—

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, a subsidiary of Qingling Group

Type of transactions	Six months ended 30/6/2011 RMB'000	30/6/2010 RMB'000
Purchases of automobile parts	35,346	30,454
Sales of parts and raw materials for the manufacture of automobile parts	7,144	6,638
Sales of moulds	403	—
Assembling income	147	—

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

Type of transactions	Six months ended 30/6/2011 RMB'000	30/6/2010 RMB'000
Purchases of automobile parts	51,677	42,328
Sales of moulds	2,174	—
Sales of parts and raw materials for the manufacture of automobile parts	1,572	4,168

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

Type of transactions	Six months ended 30/6/2011 RMB'000	30/6/2010 RMB'000
Purchases of automobile parts	13,775	6,487
Sales of moulds	1,178	—
Sales of parts and raw materials for the manufacture of automobile parts	735	621

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 30/6/2011 *RMB'000*	30/6/2010 *RMB'000*
Purchase of parts and components	562,880	828,170
Royalties on sale of trucks and other vehicles	44,440	32,112
Sales of moulds	26,221	—
Sales of accessory sets and other automobile parts and components	18,841	21,584

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

Type of transactions	Six months ended 30/6/2011 *RMB'000*	30/6/2010 *RMB'000*
Purchases of automobile parts	822,187	697,242
Sales of accessory sets and raw materials	524,497	519,979
Income for renting properties and equipments	33,504	39,360
Service fee income	1,872	2,081
Sales of moulds	123	—

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	
	30/6/2011	**30/6/2010**
	RMB'000	*RMB'000*
Trade sales	1,310,225	1,030,061
Trade purchases	384,921	253,721
Purchase of property, plant and equipment	24,248	12,568

	30/6/2011	**31/12/2010**
	RMB'000	*RMB'000*
Trade and other balances due to other state-controlled entities	318,044	439,664
Trade and other balances due from other state-controlled entities	456,672	408,859

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 2011 is approximately RMB1,473,000 (six months ended 30 June 2010: RMB1,357,000).

15. COMMITMENTS

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

	30/6/2011	**31/12/2010**
	RMB'000	*RMB'000*
Contracted for but not provided in the condensed consolidated financial statements in respect of acquisition of property, plant and equipment	69,274	11,263
Approved by the directors but not contracted for the acquisition of property, plant and equipment	239,552	241,419

16. OPERATING LEASE

The Group as lessee

At the end of the reporting period, the Group had commitments for future minimum lease payments under non-cancellable operating leases which fall due as follows:

	30/6/2011	**31/12/2010**
	RMB'000	*RMB'000*
Within one year	28,941	23,143
In the second to fifth year inclusive	54,953	71,843
	83,894	94,986

Operating lease payments represent rentals payable by the Group for certain of its warehouses and production facilities. Leases are negotiated for an average term of one to three years. Relevant contracts have been renewed during reporting period.

16. OPERATING LEASE (Cont'd)

The Group as lessor

At the end of the reporting period, the Group had contracted with tenants for the following future minimum lease payments:

	30/6/2011	**31/12/2010**
	RMB'000	*RMB'000*
Within one year	42,260	33,504
In the second to fifth year inclusive	124,848	150,355
	167,108	183,859

The amount represents rentals receivable from Qingling Isuzu Engine for certain of its land and buildings and production facilities. Leases are negotiated for an average term of three or four years.

2011 Half-Yearly Results

As of 30 June 2011, the Company sold 38,737 vehicles, representing an increase of 28.66% over the corresponding period of the previous year. Sales revenue realized amounted to RMB4,079,772,000, representing an increase of 35.54% over the corresponding period of the previous year of 3,010,000,000. Profit after taxation was RMB195,583,000, representing a year-on-year growth of 35.83%.

REVIEW OF OPERATION

During the first half of the year, the growth of the sales of vehicle industry slowed down. Regardless of the adverse market atmosphere as a result of the national macroeconomic control policies, the Company has significantly improved the competitiveness of four categories of high quality medium priced products; namely light-duty, medium-duty, heavy-duty vehicles and pick-ups such that the sales of the products have continued to grow rapidly and operating results have continued to improve. Meanwhile, the Company achieved outstanding results in the Company's current production and operation as well as in the establishment of a foundation for the rapid development of its hardware and software in the future.

1. Sales system emphasis on the sales of medium-duty and heavy-duty vehicles; while the sales of light-duty remains our focus. The Company also rapidly and solidly enhanced the building of a network of medium-duty and heavy-duty and light-duty vehicles; quickly enhanced the ability of the sales staff and dealers of the Company to aim at the closing of sales as their target; the ability to visiting customers of medium-duty and heavy-duty vehicles and mass customers in local regions, counties and towns; starting up new market there, which used to be dominated by our competitors.

2. Production system was operating in a "practical, meticulous, comprehensive, clear and efficient" manner and focusing our effort to make use of technical skill and management measures to eliminate bottlenecks and strengthen the management ability of the production team to ensure the efficiency of production and delivery of in-house components.

3. Quality Management, Technical Support, Manufacturing, Purchasing and other departments operated integrally, according to the deploy of the Company, to reinforce quality management to ensure the stability of the quality of in-house

components and outsourced components. First, insisting on adopting the Isuzu PPR quality management methods and monitor the quality improvement of the final products of in-house components and outsourced components; second, setting up checkpoint in the main assembly line to conduct inspection to the preceding departments to prevent any below standard components from entering the production line; third, tightening the inspection on outsourced components prior to their deliveries to the plant and in-house components before dispatching to the production line.

4. Planning Ahead. "Exercise to cut costs" was conducted through out the Company right at the beginning of the year. The cost cutting exercise for outsourced components achieved good initial results. For further cost cutting of the in-house components, through revising the technical data, reviewing the quota of work procedure consumption and cost quota of work procedure, the key points of wastage control are identified and the initial step of cost control and cost cutting was made.

5. Solidly execute the 4 Major Projects. The 4 major projects will be completely integrated towards the end of this year. (i) The enhancement of productivity of the main assembly line is expected to be completed and production will begin this October; (ii) the enhancement of the productivity of in-house and outsourced components is expected to be ready by the end of this year; (iii) enhance the R & D ability of engines, vehicles and chassis. The main building of the workshop and fundamental equipments are basically ready. Installation and test run will be carried out by year end; (iv) enhance the sales and after sales service. To quickly and solidly establish medium and heavy vehicle sales and after sales service network. To launch attack in regions traditionally dominated by our competitors and enlarge the customer group of the Company's products. "Light Commercial Vehicles" and branches continue to consolidate in order to reach special business zones where our customers cluster together and expand to regions, counties and towns where mass customers crowd together.

6. To provide specially designed training to various levels of staff in order to enhance business and political quality. (i) Continue to further develop the training program in management knowledge and professional know how in vehicles and engines which had been started last year; (ii) select and send Company heads to study production management on the spot at Isuzu. (iii) to organize and send some management staff to the higher education institutions in Chongqing to attend professional training in mechanical manufacturing and automation system.

OUTLOOK

Over the years, the Company endeavoured to conduct business according to the operating concept and policy of sustainable development. We strived to excel internally and established a sound and solid foundation. We successfully developed four categories of high quality medium price products including light, medium and heavy vehicle and pick-ups. Regardless of the slow down of the market growth of the vehicle industry as a result of the macroeconomic austerity measures, our competitiveness stood out among our competitors. This is a favorable opportunity for us to outperform our competitors and continue rapid development.

1. To further execute the core principle of laying emphasis on medium and heavy vehicles. To quickly and solidly enhance the building of a network of medium and heavy vehicles. To swiftly and unsparingly enhance the sales ability of the sales staff of the Company so as to further enhance sales turnover.

2. To improve in technology to enhance productivity. To gradually consolidate the hard wares of technology programs. Must concentrate our effort in various areas like equipment, know-how, quality, logistics and training. Soft and hard wares must work together to achieve the target of productivity enhancement.

3. Quality management. To execute the inspection work at various quality control points in great details according to bench marks. To provide stern and strict training to staff in charge of inspection so that they can master the job know how and be ready to spot problems that affects quality and ensure further enhancement of product quality.

4. As for further reduction in the cost of in-house components, a lot of fundamental work has been done in the first half of the year and the results will be seen in the second half of the year. These actions will contribute to resist the pressure in the increase of cost as a result of changing external factors.

The Company strongly believes that in the second half of this year, the Company will be able to take advantage of the opportunity to continue to solidly enhance our sales competitiveness and continue to improve productivity and further reduce our costs. As a result, production and operation will continue to grow rapidly together and excellent sales results can be achieved for our investors.

Financial Resources and Liquid Funds Situation

Equity attributable to the owners of the Company as at 30 June 2011 decreased by 0.78% compared with that as at 31 December 2010. This decrease was mainly due to the aggregate profit attributable to the owners of the Company for the period amounted to approximately RMB192,275,000 and the payment of 2010 dividend approximately RMB248,227,000.

There were no borrowings of the Group as at 30 June 2011. 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 RMB8,456,128,000, whereas current liabilities amounted to approximately RMB2,888,233,000. As at 30 June 2011, bank balances and cash, bank deposits with original maturity more than three months amounted to approximately RMB4,639,516,000.

As at 30 June 2011, no assets had been pledged by the Group as security and the gearing ratio of the Group was 28.11%, 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 Notice of Certain Tax Policies for Implementation of Exploration and Development of Western Zone (Cai Shui [2011] No. 58), a company located in the western zone of the PRC and engaged in the business encouraged by the PRC government continues to be entitled to the Enterprise Income Tax rate of 15%. Government authorities will issue the Industries Catalog separately. The Group has fulfilled the issued Industries Catalog, and will be subject to the re-certification by the competent taxation authority to fulfil the new Industries Catalog. The Company, Qingling Moulds, a subsidiary of the Company, and Qingling Isuzu Engine, a jointly controlled entity all enjoy 15% income tax rate effective from the beginning of year 2011 because they all locate in the western zone of the PRC and are engaged in the business encouraged by the PRC government.

Designated Deposits

As at 30 June 2011, 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 2011, the Group has 3,085 employees (six months ended 30 June 2010: 3,130 employees). For the six months ended 30 June 2011, labour cost was RMB76,299,000 (six months ended 30 June 2010: RMB66,051,000). The Group actively provides various training programme to its staff of all levels.

Sales and Staff Quarters

For the six months ended 30 June 2011, the Group did not sell any staff quarters to its employees.

Structure of Shareholding

(1) As at 30 June 2011, 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 2011, 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 Group	Domestic shares	1,243,616,403 shares	Beneficial Owner	100.00%	50.10%
Isuzu	H shares	496,453,654 shares	Beneficial Owner	40.08%	20.00%
Richard L. Chilton, Jr.	H shares	74,528,000 shares *(Note)*	Interest of controlled corporation	6.02%	3.00%
Chilton Investment Company, Inc.	H shares	74,528,000 shares *(Note)*	Interest of controlled corporation	6.02%	3.00%
Chilton Investment Company, LLC	H shares	74,528,000 shares *(Note)*	Investment manager	6.02%	3.00%

Note:

The following is a breakdown of the interests in shares of the Company held by Richard L. Chilton, Jr.:

Name of controlled corporation	Name of controlling shareholder	Percentage of control	Total interest in shares: Direct interest	Total interest in shares: Indirect interest
Chilton Investment Company, Inc.	Richard L. Chilton, Jr.	49.80%	—	74,528,000
Chilton Investment Company, LLC	Chilton Investment Company, Inc.	61.06%	—	74,528,000

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 2011.

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

As at 30 June 2011, 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 pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code"). For the six months ended 30 June 2011, 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 and Redemption of the Company's Listed Securities

There were no purchase, sale, redemption or cancellation of the Company's listed securities by the Company and its subsidiaries during the six months ended 30 June 2011.

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 Listing Rules during the six months ended 30 June 2011.

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 2011.

Independent Review

The interim results for the six months ended 30 June 2011 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 and the 2011 interim report 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. Ryozo TSUKIOKA
Mr. LIU Guangming
Mr. PAN Yong
Mr. YUE Huaqiang

Independent Non-Executive Directors:
Mr. LONG Tao
Mr. SONG Xiaojiang
Mr. XU Bingjin
Mr. LIU Tianni

By Order of the Board
Qingling Motors Co. Ltd
WU Nianqing
Company Secretary

Chongqing, the PRC, 24 August 2011