



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

2012 Interim Report



REPORT ON REVIEW OF CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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 condensed consolidated financial statements of Qingling Motors Co., Ltd. (the "Company") and its subsidiaries (collectively referred to as the "Group") set out on pages 3 to 21, which comprise the condensed consolidated statement of financial position as of 30 June 2012 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. 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 these condensed consolidated financial statements in accordance with HKAS 34. Our responsibility is to express a conclusion on these condensed consolidated financial statements 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 these condensed consolidated financial statements 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 condensed consolidated financial statements are not prepared, in all material respects, in accordance with HKAS 34.

Deloitte Touche Tohmatsu
Certified Public Accountants

Hong Kong
22 August 2012

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the six months ended 30 June 2012

		Six months ended	
		30/6/2012	30/6/2011
		<i>RMB'000</i>	<i>RMB'000</i>
	<i>NOTES</i>	(Unaudited)	(Unaudited)
Revenue	3	3,173,783	4,079,772
Cost of sales		<u>(2,774,027)</u>	<u>(3,537,164)</u>
Gross profit		399,756	542,608
Other income		69,866	76,422
Other gains and losses		5,281	4,784
Distribution and selling expenses		(201,333)	(304,874)
Administrative expenses		<u>(88,256)</u>	<u>(89,283)</u>
Profit before tax	4	185,314	229,657
Income tax expense	5	<u>(27,266)</u>	<u>(34,074)</u>
Profit and total comprehensive income for the period		<u><u>158,048</u></u>	<u><u>195,583</u></u>
Profit and total comprehensive income for the period attributable to:			
Owners of the Company		156,576	192,275
Non-controlling interests		<u>1,472</u>	<u>3,308</u>
		<u><u>158,048</u></u>	<u><u>195,583</u></u>
Earnings per share			
Basic and diluted	7	<u><u>RMB0.0631</u></u>	<u><u>RMB0.0775</u></u>

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 30 June 2012

		30/6/2012	31/12/2011
		<i>RMB'000</i>	<i>RMB'000</i>
	<i>NOTES</i>	(Unaudited)	(Audited)
Non-current assets			
Property, plant and equipment	8	1,506,846	1,607,576
Prepaid lease payments		45,501	46,192
Investment properties	8	53,174	40,654
Intangible assets		30,123	34,675
Deferred tax assets		2,330	2,330
		1,637,974	1,731,427
Current assets			
Inventories		1,075,678	904,881
Trade and other receivables	9	957,357	910,332
Bills receivables	10	2,541,659	2,415,438
Prepaid lease payments		1,383	1,383
Bank deposits with original maturity more than three months	11	2,682,413	3,326,687
Bank balances and cash		908,038	848,928
		8,166,528	8,407,649
Current liabilities			
Trade, bills and other payables	12	2,381,022	2,559,957
Tax liabilities		17,808	33,624
		2,398,830	2,593,581
Net current assets		5,767,698	5,814,068
Total assets less current liabilities		7,405,672	7,545,495

	30/6/2012 <i>RMB'000</i> (Unaudited)	31/12/2011 <i>RMB'000</i> (Audited)
Capital and reserves		
Share capital	2,482,268	2,482,268
Share premium and reserves	4,629,990	4,771,285
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Equity attributable to owners of the Company	7,112,258	7,253,553
Non-controlling interests	293,414	291,942
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Total equity	<u>7,405,672</u>	<u>7,545,495</u>

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 June 2012

	Attributable to owners of the Company							Non- controlling interests	Total equity
	Share capital	Share premium	Capital reserve	Statutory surplus reserve fund	Discretionary surplus reserve fund	Retained profits	Total		
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000		
For the six months ended 30 June 2011 (unaudited)									
At 1 January 2011 (audited)	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	<u>2,482,268</u>	<u>1,764,905</u>	<u>572,239</u>	<u>809,008</u>	<u>2,347</u>	<u>1,461,403</u>	<u>7,092,170</u>	<u>292,758</u>	<u>7,384,928</u>
For the six months ended 30 June 2012 (unaudited)									
At 1 January 2012 (audited)	2,482,268	1,764,905	572,239	843,914	2,347	1,587,880	7,253,553	291,942	7,545,495
Profit for the period, representing total comprehensive income for the period	—	—	—	—	—	156,576	156,576	1,472	158,048
Unclaimed H shares dividend of prior year	—	—	—	—	—	1	1	—	1
2011 final dividend paid (Note 6)	—	—	—	—	—	(297,872)	(297,872)	—	(297,872)
At 30 June 2012	<u>2,482,268</u>	<u>1,764,905</u>	<u>572,239</u>	<u>843,914</u>	<u>2,347</u>	<u>1,446,585</u>	<u>7,112,258</u>	<u>293,414</u>	<u>7,405,672</u>

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

For the six months ended 30 June 2012

	Six months ended	
	30/6/2012	30/6/2011
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Net cash used in operating activities	<u>(261,527)</u>	<u>(499,557)</u>
Net cash from investing activities:		
Additions of property, plant and equipment	(77,695)	(60,728)
Withdrawal of fixed deposits with banks	2,335,361	2,577,468
Placement of fixed deposits with banks	(1,712,128)	(2,322,985)
Interest received	72,970	65,232
Proceeds from disposal of property, plant and equipment	<u>—</u>	<u>2</u>
	<u>618,508</u>	<u>258,989</u>
Net cash used in financing activities:		
Dividends paid	(297,872)	(248,227)
Dividends paid to non-controlling interest	—	(207)
Refund of unclaimed H shares dividend	<u>1</u>	<u>—</u>
	<u>(297,871)</u>	<u>(248,434)</u>
Net increase (decrease) in cash and cash equivalents	59,110	(489,002)
Cash and cash equivalents at 1 January	<u>848,928</u>	<u>1,683,709</u>
Cash and cash equivalents at 30 June, represented by Bank balances and cash	<u><u>908,038</u></u>	<u><u>1,194,707</u></u>

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2012

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 the 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.

Except as described below, the accounting policies and methods of computation used in the condensed consolidated financial statements for the six months ended 30 June 2012 are the same as those followed in the preparation of the annual financial statements of Qingling Motors Co., Ltd. (the “Company”) and its subsidiaries (collectively referred to as the “Group”) for the year ended 31 December 2011.

In the current interim period, the Group has applied, for the first time, the following amendments to the Hong Kong Financial Reporting Standards (“HKFRSs”) issued by the HKICPA:

- Amendments to HKFRS 7 Financial Instruments: Disclosures — Transfers of Financial Assets; and
- Amendments to HKAS 12 Deferred Tax: Recovery of Underlying Assets

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

3. SEGMENT INFORMATION

The Group’s operating segments, based on information reported to the chief operating decision maker (i.e. the Company’s executive directors) for the purpose of resources 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
Automobile parts and accessories	—	manufacture and sales of automobile parts and accessories

3. SEGMENT INFORMATION (Cont'd)

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 2012

	Light-duty trucks <i>RMB'000</i>	Multi- purposes vehicles <i>RMB'000</i>	Pick-up trucks <i>RMB'000</i>	Medium and heavy-duty trucks <i>RMB'000</i>	Automobile parts and accessories <i>RMB'000</i>	Consolidated <i>RMB'000</i>
Segment revenue	<u>1,335,413</u>	<u>29,066</u>	<u>1,012,912</u>	<u>494,198</u>	<u>302,194</u>	<u>3,173,783</u>
Segment result	<u>9,670</u>	<u>621</u>	<u>92,090</u>	<u>15,728</u>	<u>2,856</u>	<u>120,965</u>
Central administration costs						(16,378)
Interest income						48,960
Other income						23,108
Items related to jointly controlled entities under proportionate consolidation						<u>8,659</u>
Group's profit before tax						<u>185,314</u>

Six months ended 30 June 2011

	Light-duty trucks <i>RMB'000</i>	Multi- purposes vehicles <i>RMB'000</i>	Pick-up trucks <i>RMB'000</i>	Medium and heavy-duty trucks <i>RMB'000</i>	Automobile parts and accessories <i>RMB'000</i>	Consolidated <i>RMB'000</i>
Segment revenue	<u>1,964,764</u>	<u>12,588</u>	<u>1,001,893</u>	<u>751,976</u>	<u>348,551</u>	<u>4,079,772</u>
Segment result	<u>40,541</u>	<u>1,147</u>	<u>86,088</u>	<u>14,113</u>	<u>8,704</u>	<u>150,593</u>
Central administration costs						(16,347)
Interest income						54,890
Other income						23,972
Items related to jointly controlled entities under proportionate consolidation						<u>16,549</u>
Group's profit before tax						<u>229,657</u>

Segment result represents the profit earned by each segment without allocation of central administration costs, interest income, certain other income and the expenses incurred by the jointly controlled entities under proportionate consolidation. This is the measure reported to the chief operating decision maker for the purpose of resources allocation and performance assessment.

4. PROFIT BEFORE TAX

	Six months ended	
	30/6/2012	30/6/2011
	<i>RMB'000</i>	<i>RMB'000</i>
Profit before tax has been arrived at after charging:		
Depreciation of property, plant and equipment	142,431	108,249
Amortisation of intangible assets (included in cost of sales)	4,552	4,552
Depreciation of investment properties	3,718	3,087
Release of prepaid lease payments	691	691
Loss on disposal of property, plant and equipment	—	6
and after crediting:		
Interest income from bank deposits and balances	51,929	56,802
Rental income from renting investment properties and equipment	14,759	15,301
Net foreign exchange gain	5,281	4,790
Government grant	13	2,042
	<u> </u>	<u> </u>

5. INCOME TAX EXPENSE

	Six months ended	
	30/6/2012	30/6/2011
	<i>RMB'000</i>	<i>RMB'000</i>
Current tax	27,266	34,074
Deferred tax	—	—
	<u> </u>	<u> </u>
Income tax expense	<u>27,266</u>	<u>34,074</u>

According to the Notice of Certain Tax Policies for Implementation of Exploration and Development of Western Region (Cai Shui [2011] No. 58), a company located in the western region of the PRC and engaged in the business encouraged by the PRC government is entitled to a preferential Enterprise Income Tax (“EIT”) rate of 15%. According to the Notice of the Enterprise Income Tax for Implementation of Exploration and Development of Western Region (Guo Shui [2012] No. 12), a company located in the western region of the PRC is entitled to apply to the tax authority for the preferential EIT rate of 15% if certain conditions set out in the notice are satisfied. The Company, 重慶慶鈴模具有限有限公司 (“Qingling Moulds”), a subsidiary of the Group, and 慶鈴五十鈴重慶發動機有限公司 (“Qingling Isuzu Engine”), a jointly controlled entity have applied and obtained the approval from the relevant authority in respect of the application of the preferential EIT rate for year 2011. Although the Encouraged Industries Catalogue in the Western Region is not yet issued by the government authorities as of the date of issuance of these condensed consolidated financial statements, in the opinion of the directors, the Company, Qingling Moulds, and Qingling Isuzu Engine are able to satisfy the conditions set out in relevant notices and the requirement of the Encouraged Industries Catalogue and therefore continue to apply the preferential EIT rate of 15% in the current interim period.

5. INCOME TAX EXPENSE (Cont'd)

重慶慶鈴技術中心 (“Qingling Technical Center”), a subsidiary of the Group, and 慶鈴五十鈴(重慶)汽車銷售服務有限公司 (“Qingling Isuzu Sales”), a jointly controlled entity are both subject to 25% (2011: 25%) EIT rate in year 2012.

6. DIVIDEND

During the current interim period, a final dividend of RMB0.12 per share in respect of the year ended 31 December 2011 (six months ended 30 June 2011: RMB0.10 per share in respect of the year ended 31 December 2010) 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 RMB297,872,000 (six months ended 30 June 2011: RMB248,227,000). The directors of the Company have resolved not to declare an interim dividend for the six months ended 30 June 2012 (six months ended 30 June 2011: 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	
	30/6/2012	30/6/2011
	<i>RMB'000</i>	<i>RMB'000</i>
Earnings		
Earnings for the purpose of basic earnings per share (profit for the period attributable to owners of the Company)	<u>156,576</u>	<u>192,275</u>
	30/6/2012	30/6/2011
	<i>'000</i>	<i>'000</i>
Number of shares		
Number of shares for the purpose of basic earnings per share	<u>2,482,268</u>	<u>2,482,268</u>

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

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

During the current interim period, the Group incurred approximately RMB57,939,000 (six months ended 30 June 2011: RMB64,745,000) for construction of new manufacturing lines and acquisition of equipment in order to expand its production capacities.

During the current interim period, the Group transferred completed properties with a carrying amount of RMB16,238,000 to investment properties (six months ended 30 June 2011: nil). The investment properties are rented out under operating leases.

As at 30 June 2012, the Group was in the progress of obtaining the ownership certificate of the above investment properties.

9. TRADE AND OTHER RECEIVABLES

At the end of the reporting period, the balance of trade and other receivables included amounts due from 慶鈴汽車(集團)有限公司 (“Qingling Group” — ultimate holding company of the Group), subsidiaries of Qingling Group, and Qingling Isuzu Sales as follows:

	30/6/2012	31/12/2011
	<i>RMB'000</i>	<i>RMB'000</i>
Qingling Group	663,423	610,394
Subsidiaries of Qingling Group	63,008	41,019
Qingling Isuzu Sales	435	37
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	<u>726,866</u>	<u>651,450</u>

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

Receivables from subsidiaries of Qingling Group are trade in nature, of which RMB40,157,000 (31 December 2011: RMB26,533,000) are aged within 6 months, RMB10,365,000 (31 December 2011: RMB14,486,000) are aged over 6 months but within 1 year and RMB12,486,000 (31 December 2011: nil) are aged over 1 year.

All receivables from Qingling Isuzu Sales are trade in nature and aged within 6 months.

9. TRADE AND OTHER RECEIVABLES (Cont'd)

At the end of the reporting period, the aging analysis of trade receivables presented based on invoice date, net of allowances, of the Group is as follows:

	30/6/2012	31/12/2011
	<i>RMB'000</i>	<i>RMB'000</i>
Within 3 months	697,116	703,286
Between 3 to 6 months	78,180	1,388
Between 7 to 12 months	18,743	5,273
Between 1 to 2 years	12,586	15,338
Over 2 years	1,860	561
	<hr/>	<hr/>
	808,485	725,846
Other receivables	19,857	18,500
Prepaid value-added tax	12,468	50,745
Prepayments	116,547	115,241
	<hr/>	<hr/>
	957,357	910,332
	<hr/> <hr/>	<hr/> <hr/>

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 2012 and 31 December 2011.

10. BILLS RECEIVABLES

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

	30/6/2012	31/12/2011
	<i>RMB'000</i>	<i>RMB'000</i>
Within 1 month	576,716	728,789
Between 1 to 2 months	452,046	507,909
Between 2 to 3 months	455,835	318,981
Between 4 to 6 months	1,057,062	859,759
	<hr/>	<hr/>
	2,541,659	2,415,438
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All the above bills receivables are guaranteed by banks and their maturity dates ranged from 30 to 180 days.

11. BANK DEPOSITS WITH ORIGINAL MATURITY MORE THAN THREE MONTHS

The fixed deposits with banks are with a term of 12 months (31 December 2011: from 6 to 12 months) and their interest rates are fixed at 3.5% (31 December 2011: from 2.25% to 3.25%) per annum.

12. 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” — a substantial shareholder of the Company), subsidiaries of Qingling Group and Qingling Isuzu Engine as follows:

	30/6/2012	31/12/2011
	<i>RMB'000</i>	<i>RMB'000</i>
Isuzu	65,889	119,219
Subsidiaries of Qingling Group	24,717	41,057
Qingling Isuzu Engine	25,454	39,668
	<u>116,060</u>	<u>199,944</u>

These amounts are trade in 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 aging analysis of trade and bills payables of the Group is as follows:

	30/6/2012	31/12/2011
	<i>RMB'000</i>	<i>RMB'000</i>
Within 3 months	1,771,727	1,678,106
Between 3 to 6 months	85,035	252,248
Between 7 to 12 months	18,940	46,418
Over 1 year	14,973	47,946
	<u>1,890,675</u>	<u>2,024,718</u>
Trade and bills payables	1,890,675	2,024,718
Advance from customers	174,570	200,049
Accrued selling expenses	269,766	295,166
Other payables	45,493	39,514
Value added tax payables	518	510
	<u>2,381,022</u>	<u>2,559,957</u>

13. RELATED PARTY TRANSACTIONS AND BALANCES

Apart from the amounts due from and to related parties as disclosed in notes 9 and 12, during the current interim period, the Group entered into the following transactions with related parties:

(1) Transactions with Qingling Group and its subsidiaries

- (a) *Qingling Group and certain subsidiaries of Qingling Group (exclude the following subsidiaries set out at in (b), (c), (d), (e), (f) and (g) below)*

Type of transactions	Six months ended	
	30/6/2012	30/6/2011
	RMB'000	RMB'000
Sales of chassis	776,273	499,000
Purchases of automobile parts (Note 1)	80,226	72,127
Sales of parts and raw materials for the manufacture of automobile parts (Note 2)	39,317	43,004
Expenses for renting warehouse	3,018	3,020
Expenses for renting equipment	690	690
	<u>690</u>	<u>690</u>

Note 1: Included in the amount set out above are RMB23,131,000 (six months ended 30 June 2011: RMB23,433,000), RMB7,462,000 (six months ended 30 June 2011: RMB3,089,000), RMB44,724,000 (six months ended 30 June 2011: RMB45,385,000) and RMB4,909,000 (six months ended 30 June 2011: RMB220,000) 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 amount set out above are RMB2,738,000 (six months ended 30 June 2011: RMB3,201,000), RMB30,845,000 (six months ended 30 June 2011: RMB33,463,000), RMB5,724,000 (six months ended 30 June 2011: RMB6,311,000) and RMB10,000 (six months ended 30 June 2011: RMB29,000) representing the sales of parts and raw materials to Qingling Jijia, Qingling Shangzhuang, Qingling Chassis and Qingling Group respectively during the current period.

13. 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	
	30/6/2012	30/6/2011
	RMB'000	RMB'000
Sales of parts and raw materials for the manufacture of automobile parts	14,420	11,010
Purchases of automobile parts	10,282	11,845
Expenses for renting equipment	2,220	1,312
	<u> </u>	<u> </u>

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

Type of transactions	Six months ended	
	30/6/2012	30/6/2011
	RMB'000	RMB'000
Purchases of automobile parts	24,358	32,905
Sales of parts and raw materials for the manufacture of automobile parts	20,089	10,129
Expenses for renting equipment	11,651	6,885
	<u> </u>	<u> </u>

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

Type of transactions	Six months ended	
	30/6/2012	30/6/2011
	RMB'000	RMB'000
Purchases of automobile parts	28,517	119,791
Sales of parts and raw materials for the manufacture of automobile parts	1,675	6,556
Purchases of equipment	—	3,590
	<u> </u>	<u> </u>

13. 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	
	30/6/2012 RMB'000	30/6/2011 RMB'000
Purchases of automobile parts	31,653	35,346
Sales of parts and raw materials for the manufacture of automobile parts	<u>6,509</u>	<u>7,547</u>

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

Type of transactions	Six months ended	
	30/6/2012 RMB'000	30/6/2011 RMB'000
Purchases of automobile parts	38,700	51,677
Sales of parts and raw materials for the manufacture of automobile parts	<u>1,361</u>	<u>3,746</u>

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

Type of transactions	Six months ended	
	30/6/2012 RMB'000	30/6/2011 RMB'000
Purchases of automobile parts	8,580	13,775
Sales of parts and raw materials for the manufacture of automobile parts	<u>790</u>	<u>1,913</u>

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

(2) Transactions with Isuzu

Isuzu owns 496,453,654 H shares representing 20% of the entire issued share capital of the Company and so Isuzu has significant influence over the Company.

Type of transactions	Six months ended	
	30/6/2012	30/6/2011
	<i>RMB'000</i>	<i>RMB'000</i>
Purchase of parts and components	727,653	562,880
Royalties on sale of trucks and other vehicles	34,490	44,440
Sales of accessory sets and other automobile parts and components	<u>19,712</u>	<u>45,062</u>

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

Type of transactions	Six months ended	
	30/6/2012	30/6/2011
	<i>RMB'000</i>	<i>RMB'000</i>
Purchases of automobile parts	706,300	822,187
Sales of accessory sets and raw materials	422,170	524,620
Income for renting moulds, tools and equipments	33,504	33,504
Consolidated services income	<u>2,566</u>	<u>1,872</u>

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

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

(4) Transactions with Qingling Isuzu Sales, a jointly controlled entity of the Group

Type of transactions	Six months ended	
	30/6/2012	30/6/2011
	<i>RMB'000</i>	<i>RMB'000</i>
Sales of trucks	1,316	—
Sales of raw materials and automobile parts	34	—
Rental income	733	—
Consolidated services income	250	—

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

(5) Transactions/balances with other government-related entities in the PRC

The Group operates in an economic environment currently predominated by entities directly or indirectly owned or controlled, jointly controlled or significantly influenced by the PRC government ("government-related 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 government-related entities. The directors of the Company consider those government related entities are independent third parties so far as the Group's business transactions with them are concerned.

Material transactions/balances with other government-related entities are as follow:

	Six months ended	
	30/6/2012	30/6/2011
	<i>RMB'000</i>	<i>RMB'000</i>
Trade sales	651,834	1,310,225
Trade purchases	204,709	384,921
Purchase of property, plant and equipment	11,276	24,248

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

(5) Transactions/balances with other government-related entities in the PRC (Cont'd)

	30/6/2012 RMB'000	31/12/2011 RMB'000
Trade and other balances due to other government-related entities	<u>188,950</u>	<u>288,850</u>
Trade and other balances due from other government-related entities	<u>639,521</u>	<u>501,531</u>

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

Except as disclosed above, the directors of the Company are of the opinion that transactions with government-related entities are not significant to the Group's operations.

(6) Compensation of directors and key management personnel

The 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 2012 amounted to approximately RMB1,464,000 (six months ended 30 June 2011: RMB1,473,000).

14. COMMITMENTS

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

	30/6/2012 RMB'000	31/12/2011 RMB'000
Contracted for but not provided in the condensed consolidated financial statements in respect of acquisition of property, plant and equipment	<u>110,300</u>	<u>95,499</u>
Approved by the directors but not contracted for in respect of acquisition of property, plant and equipment	<u>48,467</u>	<u>133,224</u>
Approved by the directors but not contracted for in respect of investment in a joint venture (Note 16)	<u>6,325</u>	<u>—</u>

15. OPERATING LEASES

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:

	30/6/2012 <i>RMB'000</i>	31/12/2011 <i>RMB'000</i>
Within one year	35,246	33,925
In the second to fifth year inclusive	<u>20,541</u>	<u>38,062</u>
	<u><u>55,787</u></u>	<u><u>71,987</u></u>

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.

The Group as lessor

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

	30/6/2012 <i>RMB'000</i>	31/12/2011 <i>RMB'000</i>
Within one year	52,930	51,015
In the second to fifth year inclusive	<u>73,748</u>	<u>99,340</u>
	<u><u>126,678</u></u>	<u><u>150,355</u></u>

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

16. EVENT AFTER THE REPORTING PERIOD

The Group and Isuzu have entered into the Agreement of Establishment of Joint Venture ("JV Company") on 4 July 2012 to establish the JV Company by collaborating the intellectual properties and technologies of both parties to develop new model of heavy-duty trucks and their parts. The registered capital of the JV Company is US\$4,000,000 and to be contributed as to 25% by the Group and 75% by Isuzu. The registered capital has been paid up as of the date of approval of these condensed consolidated financial statements. Further details are set out in the announcement of the Company dated 4 July 2012.

2012 HALF-YEARLY RESULTS

As at 30 June 2012, the Company sold 31,323 vehicles, representing a decrease of 19.1% over the corresponding period of the previous year. Sales revenue realized amounted to RMB3.17 billion, representing a decrease of 22.21% over the corresponding period of the previous year. Profit after taxation was RMB158 million, representing a year-on-year decline of 19.2%.

REVIEW OF OPERATION

During the first half of the year, against the increasing pressure on the downturn of the macro-economy and the fragile market demand for commercial trucks due to the sluggish manufacturing industry, the Company, after prudent and careful assessment of the market environment, has formulated various approaches and measures in the aspects of marketing, production, capacity and management, and through effective and precise execution, we managed to overcome the adversity while gathering new momentum for further growth.

1. Marketing: We have cultivated over 70 additional first-tier distributors in some thriving and growing counties and towns with a view to developing new “leaders” in the marketing network, hence advocating the principal of “providing high quality products at a medium price and offering on-site maintenance service”. We also endeavored to explore the possibilities in engaging in industries which are least affected by macro-control policies and strongly related to the livelihood of the people, such as seafood, milk products, medicine and vaccine. As a result, we gained sales growth in both counties and towns market and in the retail customer market.
2. Production: 1) Solution to the short to mid-term growth in demand: After taking into account of the requirements of users in counties and towns, we, while offering high-quality but medium-priced products, have gathered the pace of developing and launching “economical” model (100P, UC) with higher price-performance ratio and 600P/700P model which carries a new requirement of one and a half cabin and caters for the needs of carriers; 2) Placing our focus on mid-term and long-term development: The Company took part in the market competition emerging from the end of the “12th Five-Year Plan” period by jointly established a research and development center for heavy-duty vehicles with Isuzu to develop and produce heavy-duty vehicles which well-suit the needs of the locals and has the highest price-performance ratio. Qingling Group, our controlling shareholder, has jointly established an engine component company

with Isuzu to foster the domestic production of our engines for heavy-duty vehicles. We have officially commenced the project with respect to Isuzu heavy-duty vehicles and engines for heavy-duty vehicles.

3. Capacity: We have put our utmost effort in achieving the last year's target of enhancing the productivity of the main assembly line. Meanwhile, the optimization of R&D capability of engines, vehicles and chassis has, generally, come to the final stage. This year, we initiated three enhancement projects, (i) the improvement to the coating and spraying system for the compliance with product requirements, the enhancement of production capacity and the renovation for reducing consumption; (ii) the introduction of technological measures and methods to the production and management system for higher efficiency; (iii) the enhancement of the capacity and ancillary production facilities.
4. We continue to focus on general administration at all cost for a complete renovation of our factory. Putting emphasis on the concept of 5S management, namely, systematic, strengthening, sweeping, sanitary and self-discipline, we have created a tidy and orderly working environment and enhanced the quality of the staff. Leveraging on the 5S management, we have laid a strong foundation for more intensive and effective general management over the quality and equipment, molds, fixture, tools and cost.
5. Exerting persistent efforts into the staff training, we have further raised the general quality of our staff. On top of integrating the central organization of the Company with the in-house organizations from all workshops/departments, we have blended theory learning and practical work all together to offer tailor-made training programmes for management staff from middle or above tier, professional technician, leaders and workers. During the first half of the year, over 1,000 staff participated in the programmes and, through the training programmes, we see unwavering faith in our staff, improved management standard and enhanced technology and skills.

OUTLOOK

Currently, the high quality but medium-priced products developed by the Company have demonstrated great potential in the growing market. Going forward to the second half of the year, the Company will continue to concentrate on the following:

1. We will continue to put our focal point on the development of first-tier distributors in prospering counties and towns while exploring food-related or community-based industries, as to gain sales growth against the predicament.

2. Apart from the marketing and sales campaign of new products such as 600P/700P model which carries a new requirement of one and a half cabin, we will also propel the marketing of “Economical” model (100P and UC) for generating higher demand over our products.
3. We and our foreign investment partners will speed up the development of heavy-duty vehicles and engines for heavy-duty vehicles and facilitate the progress of various projects such as the renovation of body coating system and production information management system.
4. We pursue a vision of higher soft power by paying attention to the general administration and staff education and training, in order to align with the improved hardware and infrastructure for creating synergy from both.
5. We continue to invest substantially in the general administration and infrastructure construction for developing a safe and environmental-friendly working environment with a target to build up a green and healthy environment for the development of the factory and the community.

Notwithstanding the overall challenging and complicated macro-economic environment as anticipated in the second half of the year, the Company strongly believes that, with our determination and dedication, we will be able to overcome all difficulties and challenges. By capitalizing on our pivotal position in the industry and by securing healthy development for the Company, we are committed to delivering outstanding operating results for our investors.

EMPLOYEES

As at 30 June 2012, the Group has 2,966 employees (six months ended 30 June 2011: 3,085 employees). For the six months ended 30 June 2012, labour cost was RMB74,020,000 (six months ended 30 June 2011: RMB76,299,000). During the six months ended 30 June 2012, no material change is noted for the remuneration policy of the employees. The Group actively provides various training programme to its staff of all levels.

SALES OF STAFF QUARTERS

For the six months ended 30 June 2012, the Group did not sell any staff quarters to its employees.

STRUCTURE OF SHAREHOLDING

- (1) As at 30 June 2012, 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 2012, 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%
Wellington Management Company, LLP	H shares	75,356,000 shares	Investment Manager	6.08%	3.03%

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 2012.

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

As at 30 June 2012, 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 pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code"). For the six months ended 30 June 2012, 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 2012.

CODE ON CORPORATE GOVERNANCE PRACTICES AND THE CORPORATE GOVERNANCE CODE

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 (effective until 31 March 2012) and the Corporate Governance Code (newly effective from 1 April 2012) as set out in Appendix 14 of the Listing Rules during the six months ended 30 June 2012:

- (1) Mr. WU Yun, the chairmen of the Board and the nomination committee, was unable to attend the annual general meeting of the Company held on 6 June 2012 (the "2012 AGM") due to the overseas expansion of export market and business activities. Mr. LIU Guangming, an executive director, chaired the 2012 AGM on behalf of the chairman of the Board and was available to answer questions.
- (2) Mr. LONG Tao, the independent non-executive director, was unable to attend the 2012 AGM due to business trip.

- (3) Mr. SONG Xiaojiang, the independent non-executive director and the Chairmen of the audit committee and the remuneration committee, was unable to attend the 2012 AGM due to business trip. Mr. LIU Guangming, an executive director, was available to answer questions.
- (4) Mr. XU Bingjin, the independent non-executive director, was unable to attend the 2012 AGM due to business trip.
- (5) Mr. LIU Tianni, the independent non-executive director, was unable to attend the 2012 AGM due to business trip.

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 2012.

INDEPENDENT REVIEW

The interim results for the six months ended 30 June 2012 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 2012 interim report have also been reviewed by the Company's audit committee.

CHANGE IN THE INFORMATION OF A DIRECTOR PURSUANT TO RULE 13.51B(1) OF THE LISTING RULES

Pursuant to rule 13.51B(1) of the Listing Rules, change in the information of a director of the Company since the date of the Annual Report 2011 of the Company required to be disclosed in this report is as follow:

- (1) Mr. LIU Guangming resigned the chairman of the remuneration committee of the Company (the "Remuneration Committee") and Mr. SONG Xiaojiang, the existing member of the Remuneration Committee, has been appointed as the chairman of the Remuneration Committee, both with effect from 26 March 2012. Mr. LIU Guangming remains to act as a member of Remuneration Committee.

- (2) Mr. WU Yun has been appointed as the chairman of the nomination committee of the Company (the “Nomination Committee”) and Mr. LONG Tao, Mr. SONG Xiaojiang, Mr. XU Bingjin and Mr. LIU Tianni have been appointed as members, all with effect from 26 March 2012.
- (3) Mr. LIU Tianni has been the chairman of the board of director and an executive director of Wonderful Sky Financial Group Holdings Limited (Stock Code: 1260), which commenced listing on the Stock Exchange on 30 March 2012.
- (4) Mr. YUE Huaqiang resigned as an executive director of the Company and Mr. Naotoshi TSUTSUMI has been appointed as an executive director and the vice chairman of the Company, both with effect from 6 June 2012.

DIRECTORS

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

Executive Directors:

Mr. WU Yun
Mr. Naotoshi TSUTSUMI
Mr. GAO Jianmin
Mr. Makoto TANAKA
Mr. Ryoza TSUKIOKA
Mr. LIU Guangming
Mr. PAN Yong

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, 22 August 2012