慶鈴汽車股份有限公司
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

2018
Interim Report

REPORT ON REVIEW OF CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

Deloitte. 德勤

TO THE BOARD OF DIRECTORS OF QINGLING MOTORS CO., LTD.
(a Sino-foreign joint venture joint stock limited company established 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 67, which comprise the condensed consolidated statement of financial position as of 30 June 2018 and the related condensed consolidated statement of profit or loss and other comprehensive income, statement of changes in equity and statement of cash flows for the six-month period then ended, and certain explanatory notes. The 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.

REPORT ON REVIEW OF CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

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
29 August 2018

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

FOR THE SIX MONTHS ENDED 30 JUNE 2018

	NOTES	Six months ended 30 June **2018** ***RMB'000*** **(unaudited)**	 2017 *RMB'000* (unaudited)
Revenue	3	**2,571,050**	2,395,474
Cost of sales		**(2,093,041)**	(1,933,774)
Gross profit		**478,009**	461,700
Other income		**116,480**	106,989
Other gains and losses, net		**(12,161)**	(1,171)
Distribution and selling expenses		**(81,974)**	(110,828)
Administrative expenses		**(112,997)**	(109,995)
Research costs		**(86,754)**	(32,569)
Provision for litigation	17	**(80,000)**	–
Share of profit of an associate		**257**	145
Share of results of joint ventures		**17,162**	10,122
Profit before tax	4	**238,022**	324,393
Income tax expense	5	**(40,413)**	(47,880)
Profit and total comprehensive income for the period		**197,609**	276,513
Profit and total comprehensive income for the period attributable to:			
Owners of the Company		**195,366**	276,186
Non-controlling interests		**2,243**	327
		197,609	276,513
Earnings per share			
Basic	7	**RMB0.08**	RMB0.11

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AT 30 JUNE 2018

	NOTES	At 30 June 2018 RMB'000 (unaudited)	At 31 December 2017 RMB'000 (audited)
Non-current assets			
Property, plant and equipment	8	**750,395**	755,433
Prepaid lease payments		**37,369**	38,060
Investment properties		**29,909**	30,917
Intangible assets		**202,109**	215,327
Interest in an associate		**7,519**	7,262
Interests in joint ventures		**515,943**	498,781
Deferred tax assets		**24,673**	31,752
		1,567,917	1,577,532
Current assets			
Inventories		**785,907**	632,989
Trade, bills and other receivables and prepayments	9	**2,496,300**	2,936,675
Prepaid lease payments		**1,383**	1,383
Bank deposits with original maturity more than three months	11	**1,731,927**	1,343,202
Restricted bank balances	12	**79,999**	79,999
Bank deposits, bank balances and cash	12	**3,841,835**	4,250,191
Tax recoverable		**–**	18
		8,937,351	9,244,457
Current liabilities			
Trade, bills and other payables	13	**2,270,839**	2,731,936
Provision for litigation	17	**80,000**	–
Tax liabilities		**2,449**	21,546
Contract liabilities		**236,362**	–
Refund liabilities		**48,711**	–
		2,638,361	2,753,482

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION (CONTINUED)

AT 30 JUNE 2018

	At 30 June 2018 ***RMB'000*** **(unaudited)**	At 31 December 2017 *RMB'000* (audited)
Net current assets	**6,298,990**	6,490,975
Total assets less current liabilities	**7,866,907**	8,068,507
Capital and reserves		
Share capital	**2,482,268**	2,482,268
Share premium and reserves	**5,074,238**	5,276,035
Equity attributable to owners of the Company	**7,556,506**	7,758,303
Non-controlling interests	**304,741**	304,544
Total equity	**7,861,247**	8,062,847
Non-current liabilities		
Deferred income – government grants	**5,660**	5,660
	7,866,907	8,068,507

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE SIX MONTHS ENDED 30 JUNE 2018

	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 2018 (unaudited)									
At 1 January 2018 (audited)	**2,482,268**	**1,764,905**	**572,239**	**1,098,315**	**2,347**	**1,838,229**	**7,758,303**	**304,544**	**8,062,847**
Profit and total comprehensive income for the period	**–**	**–**	**–**	**–**	**–**	**195,366**	**195,366**	**2,243**	**197,609**
2017 final dividend declared *(Note 6)*	**–**	**–**	**–**	**–**	**–**	**(397,163)**	**(397,163)**	**–**	**(397,163)**
Dividend declared by a subsidiary to a non-controlling shareholder	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**(2,046)**	**(2,046)**
At 30 June 2018 (unaudited)	**2,482,268**	**1,764,905**	**572,239**	**1,098,315**	**2,347**	**1,636,432**	**7,556,506**	**304,741**	**7,861,247**
For the six months ended 30 June 2017 (unaudited)									
At 1 January 2017 (audited)	2,482,268	1,764,905	572,239	1,049,035	2,347	1,787,746	7,658,540	301,349	7,959,889
Profit and total comprehensive income for the period	–	–	–	–	–	276,186	276,186	327	276,513
2016 final dividend declared *(Note 6)*	–	–	–	–	–	(397,163)	(397,163)	–	(397,163)
Dividend declared by a subsidiary to a non-controlling shareholder	–	–	–	–	–	–	–	(1,674)	(1,674)
At 30 June 2017 (unaudited)	2,482,268	1,764,905	572,239	1,049,035	2,347	1,666,769	7,537,563	300,002	7,837,565

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE SIX MONTHS ENDED 30 JUNE 2018

	Six months ended 30 June	
	2018	2017
	RMB'000	*RMB'000*
	(unaudited)	(unaudited)
NET CASH FROM OPERATING ACTIVITIES	**373,838**	475,609
INVESTING ACTIVITIES		
Acquisition of property, plant and equipment and intangible assets	**(88,055)**	(21,956)
Withdrawal of bank deposits with original maturity more than three months	**625,554**	2,475,396
Placement of bank deposits with original maturity more than three months	**(1,026,345)**	(310,349)
Interest received	**105,218**	91,087
Proceeds from disposal of property, plant and equipment	**515**	7
NET CASH (USED IN) FROM INVESTING ACTIVITIES	**(383,113)**	2,234,185
FINANCING ACTIVITIES		
Dividends paid	**(397,163)**	(397,163)
Dividends paid to a non-controlling shareholder of a subsidiary	**(2,046)**	(1,674)
NET CASH USED IN FINANCING ACTIVITIES	**(399,209)**	(398,837)
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	**(408,484)**	2,310,957
CASH AND CASH EQUIVALENTS AT 1 JANUARY	**4,250,191**	2,434,886
Effect of exchange rate changes on the balance of cash held in foreign currencies	**128**	(129)
CASH AND CASH EQUIVALENTS AT 30 JUNE, represented by bank deposits, bank balances and cash	**3,841,835**	4,745,714

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 JUNE 2018

1. BASIS OF PREPARATION

The condensed consolidated financial statements have been prepared in accordance with Hong Kong Accounting Standard 34 *Interim Financial Reporting* issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA") as well as with the applicable disclosure requirements of Appendix 16 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited.

2. PRINCIPAL ACCOUNTING POLICIES

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

Other than changes in accounting policies resulting from application of new Hong Kong Financial Reporting Standards ("HKFRSs"), the accounting policies and methods of computation used in the condensed consolidated financial statements for the six months ended 30 June 2018 are the same as those followed in the preparation of the annual consolidated financial statements of Qingling Motors Co., Ltd (the "Company") and its subsidiaries (the "Group") for the year ended 31 December 2017.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

FOR THE SIX MONTHS ENDED 30 JUNE 2018

2. PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

Application of new and amendments to HKFRSs

In the current interim period, the Group has applied, for the first time, the following new and amendments to HKFRSs issued by the HKICPA which are mandatory effective for the annual period beginning on or after 1 January 2018 for the preparation of the Group's condensed consolidated financial statements:

HKFRS 9	*Financial Instruments*
HKFRS 15	*Revenue from Contracts with Customers and the related Amendments*
HK(IFRIC)–Int 22	*Foreign Currency Transactions and Advance Consideration*
Amendments to HKFRS 2	*Classification and Measurement of Share–based Payment Transactions*
Amendments to HKFRS 4	*Applying HKFRS 9 Financial Instruments with HKFRS 4 Insurance Contracts*
Amendments to HKAS 28	*As part of the Annual Improvements to HKFRSs 2014–2016 Cycle*
Amendments to HKAS 40	*Transfers of Investment Property*

In addition, the Group has applied Amendments to HKFRS 9 *Prepayment Features with Negative Compensation* in advance of the effective date, i.e. 1 January 2019.

The new and amendments to HKFRSs have been applied in accordance with the relevant transition provisions in the respective standards and amendments which results in changes in accounting policies, amounts reported and/or disclosures as described below.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

FOR THE SIX MONTHS ENDED 30 JUNE 2018

2. PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

2.1 Impacts and changes in accounting policies of application on HKFRS 15 *Revenue from Contracts with Customers*

The Group has applied HKFRS 15 for the first time in the current interim period. HKFRS 15 superseded HKAS 18 *Revenue*, HKAS 11 *Construction Contracts* and the related interpretations.

The Group recognises revenue from the following major sources:

- Sales of trucks and vehicles
- Sales of automobile parts and accessories

The Group has applied HKFRS 15 retrospectively with the cumulative effect of initially applying this Standard recognised at the date of initial application, 1 January 2018. Any difference at the date of initial application is recognised in the opening retained profits (or other components of equity, as appropriate) and comparative information has not been restated. Furthermore, in accordance with the transition provisions in HKFRS 15, the Group has elected to apply the Standard retrospectively only to contracts that are not completed at 1 January 2018. Accordingly, certain comparative information may not be comparable as comparative information was prepared under HKAS 18 *Revenue* and the related interpretations.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

FOR THE SIX MONTHS ENDED 30 JUNE 2018

2. PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

2.1 Impacts and changes in accounting policies of application on HKFRS 15 *Revenue from Contracts with Customers* (Continued)

2.1.1 Key changes in accounting policies resulting from application of HKFRS 15

HKFRS 15 introduces a 5-step approach when recognising revenue:

- Step 1: Identify the contract(s) with a customer
- Step 2: Identify the performance obligations in the contract
- Step 3: Determine the transaction price
- Step 4: Allocate the transaction price to the performance obligations in the contract
- Step 5: Recognise revenue when (or as) the Group satisfies a performance obligation.

Under HKFRS 15, the Group recognises revenue when (or as) a performance obligation is satisfied, i.e. when "control" of the goods or services underlying the particular performance obligation is transferred to the customer.

A performance obligation represents a good and service (or a bundle of goods or services) that is distinct or a series of distinct goods or services that are substantially the same.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

FOR THE SIX MONTHS ENDED 30 JUNE 2018

2. PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

2.1 Impacts and changes in accounting policies of application on HKFRS 15 *Revenue from Contracts with Customers* (Continued)

2.1.1 Key changes in accounting policies resulting from application of HKFRS 15 (Continued)

Control is transferred over time and revenue is recognised over time by reference to the progress towards complete satisfaction of the relevant performance obligation if one of the following criteria is met:

- the customer simultaneously receives and consumes the benefits provided by the Group's performance as the Group performs;
- the Group's performance creates and enhances an asset that the customer controls as the Group performs; or
- the Group's performance does not create an asset with an alternative use to the Group and the Group has an enforceable right to payment for performance completed to date.

Otherwise, revenue is recognised at a point in time when the customer obtains control of the distinct good or service.

A contract asset represents the Group's right to consideration in exchange for goods or services that the Group has transferred to a customer that is not yet unconditional. It is assessed for impairment in accordance with HKFRS 9. In contrast, a receivable represents the Group's unconditional right to consideration, i.e. only the passage of time is required before payment of that consideration is due.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

FOR THE SIX MONTHS ENDED 30 JUNE 2018

2. PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

2.1 Impacts and changes in accounting policies of application on HKFRS 15 *Revenue from Contracts with Customers* (Continued)

2.1.1 Key changes in accounting policies resulting from application of HKFRS 15 (Continued)

A contract liability represents the Group's obligation to transfer goods or services to a customer for which the Group has received consideration (or an amount of consideration is due) from the customer.

Revenue from sales of trucks, vehicles, automobile parts and accessories are recognised when the control of goods is transferred, being when the goods are delivered to the customer's specific location. A receivable is recognised by the Group when the goods are delivered to the customer's specific location as this represents the point in time at which the right to consideration becomes unconditional, as only the passage of time is required before payment is due. The customers have neither rights of return nor rights to defer or avoid payment for the goods once they are accepted by the customers.

Refund liabilities

The Group recognises a refund liability if the Group expects to refund some of the consideration received from customers.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

FOR THE SIX MONTHS ENDED 30 JUNE 2018

2. PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

2.1 Impacts and changes in accounting policies of application on HKFRS 15 *Revenue from Contracts with Customers* (Continued)

2.1.1 Key changes in accounting policies resulting from application of HKFRS 15 (Continued)

Variable consideration

For contracts that contain variable consideration, the Group estimates the amount of consideration to which it will be entitled using the most likely amount.

The estimated amount of variable consideration is included in the transaction price only to the extent that it is highly probable that such an inclusion will not result in a significant revenue reversal in the future when the uncertainty associated with the variable consideration is subsequently resolved.

At the end of each reporting period, the Group updates the estimated transaction price (including updating its assessment of whether an estimate of variable consideration is constrained) to represent faithfully the circumstances present at the end of the reporting period and the changes in circumstances during the reporting period.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

FOR THE SIX MONTHS ENDED 30 JUNE 2018

2. PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

2.1 Impacts and changes in accounting policies of application on HKFRS 15 *Revenue from Contracts with Customers* (Continued)

2.1.1 Key changes in accounting policies resulting from application of HKFRS 15 (Continued)

Warranties

If a customer has the option to purchase a warranty separately, the Group accounts for the warranty as a separate performance obligation and allocates a portion of the transaction price to that performance obligation.

If a customer does not have the option to purchase a warranty separately, the Group accounts for the warranty in accordance with HKAS 37 *Provisions, Contingent Liabilities and Contingent Assets* unless the warranty provides the customer with a service in addition to the assurance that the product complies with agreed-upon specifications (i.e. service-type warranties).

For service-type warranties, the promised service is a performance obligation. In that case, the Group allocates a portion of the transaction price to the warranty.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

FOR THE SIX MONTHS ENDED 30 JUNE 2018

2. PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

2.1 Impacts and changes in accounting policies of application on HKFRS 15 *Revenue from Contracts with Customers* (Continued)

2.1.2 Effects arising from initial application of HKFRS 15

There was no material impact on the timing and amounts of revenue recognised upon adoption of HKFRS 15. The adoption of HKFRS15 in current period also did not result in any material impact on retained profits at 1 January 2018 and revenue for the six months ended 30 June 2018.

The following adjustments were made to the amounts recognised in the condensed consolidated statement of financial position at 1 January 2018. Line items that were not affected by the changes have not been included.

	Note	Carrying amounts previously reported at 31 December 2017 *RMB'000*	Reclassification *RMB'000*	**Carrying amounts under HKFRS 15 at 1 January 2018** ***RMB'000***
Current Liabilities				
Trade, bills and other payables	a	2,731,936	(463,805)	**2,268,131**
Contract liabilities	a	–	372,184	**372,184**
Refund liabilities	a	–	91,621	**91,621**

(a) As at 1 January 2018, advances from customers of RMB463,805,000 previously included in trade, bills and other payables were reclassified to contract liabilities of RMB372,184,000 and refund liabilities of RMB91,621,000 respectively.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

FOR THE SIX MONTHS ENDED 30 JUNE 2018

2. PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

2.1 Impacts and changes in accounting policies of application on HKFRS 15 *Revenue from Contracts with Customers* (Continued)

2.1.2 Effects arising from initial application of HKFRS 15 (Continued)

The following table summarises the impacts of applying HKFRS 15 on the Group's condensed consolidated statement of financial position as at 30 June 2018 for each of the line items affected. Line items that were not affected by the changes have not been included.

Impact on the condensed consolidated statement of financial position

	As reported	Adjustment*	Amount without application of HKFRS 15
	RMB'000	*RMB'000*	*RMB'000*
Current Liabilities			
Trade, bills and other payables	2,270,839	285,073	2,555,912
Contract liabilities	236,362	(236,362)	–
Refund liabilities	48,711	(48,711)	–

* The nature of the adjustments is similar to the reclassification made to the carrying amounts previously reported as at 31 December 2017.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

FOR THE SIX MONTHS ENDED 30 JUNE 2018

2. PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

2.2 Impacts and changes in accounting policies of application on HKFRS 9 *Financial Instruments*

In the current period, the Group has applied HKFRS 9 *Financial Instruments* and the related consequential amendments to other HKFRSs. HKFRS 9 introduces new requirements for 1) the classification and measurement of financial assets and financial liabilities, 2) expected credit losses ("ECL") for financial assets and 3) general hedge accounting.

The Group has applied HKFRS 9 in accordance with the transition provisions set out in HKFRS 9. i.e. applied the classification and measurement requirements (including impairment) retrospectively to instruments that have not been derecognised as at 1 January 2018 (date of initial application) and has not applied the requirements to instruments that have already been derecognised as at 1 January 2018. The difference between carrying amounts as at 31 December 2017 and the carrying amounts as at 1 January 2018 are recognised in the opening retained profits and other components of equity, without restating comparative information.

Accordingly, certain comparative information may not be comparable as comparative information was prepared under HKAS 39 *Financial Instruments: Recognition and Measurement*.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

FOR THE SIX MONTHS ENDED 30 JUNE 2018

2. PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

2.2 Impacts and changes in accounting policies of application on HKFRS 9 *Financial Instruments* (Continued)

2.2.1 Key changes in accounting policies resulting from application of HKFRS 9

Classification and measurement of financial assets

Trade and bills receivables arising from contracts with customers are initially measured in accordance with HKFRS 15.

All recognised financial assets that are within the scope of HKFRS 9 are subsequently measured at amortised cost or fair value.

Debt instruments that meet the following conditions are subsequently measured at amortised cost:

- the financial asset is held within a business model whose objective is to hold financial assets in order to collect contractual cash flows; and

- the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

FOR THE SIX MONTHS ENDED 30 JUNE 2018

2. PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

2.2 Impacts and changes in accounting policies of application on HKFRS 9 *Financial Instruments* (Continued)

2.2.1 Key changes in accounting policies resulting from application of HKFRS 9 (Continued)

Classification and measurement of financial assets (Continued)

Debt instruments that meet the following conditions are subsequently measured at fair value through other comprehensive income ("FVTOCI"):

- the financial asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling the financial assets; and

- the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

FOR THE SIX MONTHS ENDED 30 JUNE 2018

2. PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

2.2 Impacts and changes in accounting policies of application on HKFRS 9 *Financial Instruments* (Continued)

2.2.1 Key changes in accounting policies resulting from application of HKFRS 9 (Continued)

Classification and measurement of financial assets (Continued)

All other financial assets are subsequently measured at fair value through profit or loss ("FVTPL"), except that at the date of initial application/initial recognition of a financial asset the Group may irrevocably elect to present subsequent changes in fair value of an equity investment in other comprehensive income ("OCI") if that equity investment is neither held for trading nor contingent consideration recognised by an acquirer in a business combination to which HKFRS 3 *Business Combinations* applies.

In addition, the Group may irrevocably designate a debt investment that meets the amortised cost or FVTOCI criteria as measured at FVTPL if doing so eliminates or significantly reduces an accounting mismatch.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

FOR THE SIX MONTHS ENDED 30 JUNE 2018

2. PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

2.2 Impacts and changes in accounting policies of application on HKFRS 9 *Financial Instruments* (Continued)

2.2.1 Key changes in accounting policies resulting from application of HKFRS 9 (Continued)

Impairment under ECL model

The Group recognises a loss allowance for ECL on financial assets which are subject to impairment under HKFRS 9 (including trade, bills and other receivables, restricted bank balances, bank deposits and bank balances). The amount of ECL is updated at each reporting date to reflect changes in credit risk since initial recognition.

Lifetime ECL represents the ECL that will result from all possible default events over the expected life of the relevant instrument. In contrast, 12-month ECL ("12m ECL") represents the portion of lifetime ECL that is expected to result from default events that are possible within 12 months after the reporting date. Assessment are done based on the Group's historical credit loss experience, adjusted for factors that are specific to the debtors, general economic conditions and an assessment of both the current conditions at the reporting date as well as the forecast of future conditions.

The Group always recognises lifetime ECL for trade and bills receivables. The ECL on these assets are assessed individually.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

FOR THE SIX MONTHS ENDED 30 JUNE 2018

2. PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

2.2 Impacts and changes in accounting policies of application on HKFRS 9 *Financial Instruments* (Continued)

2.2.1 Key changes in accounting policies resulting from application of HKFRS 9 (Continued)

Impairment under ECL model (Continued)

For all other instruments (including other receivables, restricted bank balances, bank deposits and bank balances), the Group measures the loss allowance equal to 12m ECL, unless when there has been a significant increase in credit risk since initial recognition, the Group recognises lifetime ECL. The assessment of whether lifetime ECL should be recognised is based on significant increases in the likelihood or risk of a default occurring since initial recognition.

Significant increase in credit risk

In assessing whether the credit risk has increased significantly since initial recognition, the Group compares the risk of a default occurring on the financial instrument as at the reporting date with the risk of a default occurring on the financial instrument as at the date of initial recognition. In making this assessment, the Group considers both quantitative and qualitative information that is reasonable and supportable, including historical experience and forward-looking information that is available without undue cost or effort.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

FOR THE SIX MONTHS ENDED 30 JUNE 2018

2. PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

2.2 Impacts and changes in accounting policies of application on HKFRS 9 *Financial Instruments* (Continued)

2.2.1 Key changes in accounting policies resulting from application of HKFRS 9 (Continued)

Impairment under ECL model (Continued)

Significant increase in credit risk (Continued)

In particular, the following information is taken into account when assessing whether credit risk has increased significantly:

- an actual or expected significant deterioration in the financial instruments external (if available) or internal credit rating;
- significant deterioration in external market indicators of credit risk, e.g. a significant increase in the credit spread, the credit default swap prices for the debtor;
- existing or forecast adverse changes in business, financial or economic conditions that are expected to cause a significant decrease in the debtor's ability to meet its debt obligations;
- an actual or expected significant deterioration in the operating results of the debtor;
- an actual or expected significant adverse change in the regulatory, economic, or technological environment of the debtor that results in a significant decrease in the debtor's ability to meet its debt obligations.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

FOR THE SIX MONTHS ENDED 30 JUNE 2018

2. PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

2.2 Impacts and changes in accounting policies of application on HKFRS 9 *Financial Instruments* (Continued)

2.2.1 Key changes in accounting policies resulting from application of HKFRS 9 (Continued)

Impairment under ECL model (Continued)

Significant increase in credit risk (Continued)

Irrespective of the outcome of the above assessment, the Group presumes that the credit risk has increased significantly since initial recognition when contractual payments are more than 30 days past due, unless the Group has reasonable and supportable information that demonstrates otherwise.

The Group considers that default has occurred when the instrument is more than 90 days past due unless the Group has reasonable and supportable information to demonstrate that a more lagging default criterion is more appropriate.

Measurement and recognition of ECL

The measurement of ECL is a function of the probability of default, loss given default (i.e. the magnitude of the loss if there is a default) and the exposure at default. The assessment of the probability of default and loss given default is based on historical data adjusted by forward-looking information.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

FOR THE SIX MONTHS ENDED 30 JUNE 2018

2. PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

2.2 Impacts and changes in accounting policies of application on HKFRS 9 *Financial Instruments* (Continued)

2.2.1 Key changes in accounting policies resulting from application of HKFRS 9 (Continued)

Impairment under ECL model (Continued)

Measurement and recognition of ECL (Continued)

Generally, the ECL is estimated as the difference between all contractual cash flows that are due to the Group in accordance with the contract and all the cash flows that the Group expects to receive, discounted at the effective interest rate determined at initial recognition.

Interest income is calculated based on the gross carrying amount of the financial asset unless the financial asset is credit impaired, in which case interest income is calculated based on amortised cost of the financial asset.

As at 1 January 2018, the directors of the Company reviewed and assessed the Group's existing financial assets for impairment using reasonable and supportable information that is available without undue cost or effort in accordance with the requirements of HKFRS 9. The results of the assessment and the impact thereof are detailed in note 2.2.2.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

FOR THE SIX MONTHS ENDED 30 JUNE 2018

2. PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

2.2 Impacts and changes in accounting policies of application on HKFRS 9 *Financial Instruments* (Continued)

2.2.2 Summary of effects arising from initial application of HKFRS 9

Measurement and recognition of ECL

The Group applies the HKFRS 9 simplified approach to measure ECL which uses a lifetime ECL for trade and bills receivables. To measure the ECL, trade and bills receivables have been grouped based on shared credit risk characteristics.

Loss allowances for other financial assets at amortised cost mainly comprise of other receivables, restricted bank balances, bank deposits and bank balances, are measured on 12m ECL basis and there had been no significant increase in credit risk since initial recognition.

Based on the assessment by the directors of the Company, additional impairment loss on the Group's trade, bills and other receivables, restricted bank balances, bank deposits and bank balances recognised under HKFRS 9 as at 1 January 2018 was insignificant.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

FOR THE SIX MONTHS ENDED 30 JUNE 2018

3. REVENUE/SEGMENT INFORMATION

An analysis of the Group's revenue for the period is as follows:

	Six months ended 30 June	
	2018	2017
	RMB'000	*RMB'000*
	(unaudited)	(unaudited)
		(Note)
Sales of trucks and vehicles	**2,439,845**	2,340,105
Sales of automobile parts and accessories	**131,205**	55,369
	2,571,050	2,395,474

Note: The Group recorded rebates to customers amounting to RMB48,842,000 in distribution and selling expenses for the six months ended 30 June 2017, such amount has been reclassified to revenue to conform with the current period presentation.

The Group's above revenue was recognised at a point in time when the customers obtain control of the distinct good or service and the Group has made limited export sales to countries outside the PRC which accounted for approximately 0.22% (six months ended 30 June 2017: (unaudited) 0.33%) of the Group's revenue.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

FOR THE SIX MONTHS ENDED 30 JUNE 2018

3. REVENUE/SEGMENT INFORMATION (CONTINUED)

The Group is engaged in the manufacture and sales of five categories of products – light-duty trucks, multi-purposes vehicles, pick-up trucks, medium and heavy-duty trucks and automobile parts and accessories and the chief operating decision makers (i.e. the Company's executive directors) also review the segment information by these categories to allocate resources to segments and to assess their performance.

Principal business segments are as follows:

Light-duty trucks	–	manufacture and sales of light-duty trucks
Multi-purposes vehicles	–	manufacture and sales of multi-purposes vehicles
Pick-up trucks	–	manufacture and sales of pick-up trucks
Medium and heavy-duty trucks	–	manufacture and sales of medium and heavy-duty trucks
Automobile parts and accessories	–	manufacture and sales of automobile parts and accessories

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

FOR THE SIX MONTHS ENDED 30 JUNE 2018

3. REVENUE/SEGMENT INFORMATION (CONTINUED)

(i) Segment revenue and results

The following is an analysis of the Group's revenue and results by reportable and operating segments:

Six months ended 30 June 2018

	Light-duty trucks *RMB'000* (unaudited)	Multi-purposes vehicles *RMB'000* (unaudited)	Pick-up trucks *RMB'000* (unaudited)	Medium and heavy-duty trucks *RMB'000* (unaudited)	Automobile parts and accessories *RMB'000* (unaudited)	Consolidated *RMB'000* (unaudited)
Segment revenue	1,171,965	314	742,555	525,011	131,205	2,571,050
Result						
Segment profit	169,336	19	77,003	38,979	11,456	296,793
Central administration costs						(100,509)
Interest income						93,152
Other income						23,328
Other gains and losses, net						(12,161)
Provision for litigation						(80,000)
Share of profit of an associate						257
Share of results of joint ventures						17,162
Group's profit before tax						238,022

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

FOR THE SIX MONTHS ENDED 30 JUNE 2018

3. REVENUE/SEGMENT INFORMATION (CONTINUED)

(i) Segment revenue and results (Continued)

Six months ended 30 June 2017

	Light-duty trucks *RMB'000* (unaudited)	Multi-purposes vehicles *RMB'000* (unaudited)	Pick-up trucks *RMB'000* (unaudited)	Medium and heavy-duty trucks *RMB'000* (unaudited)	Automobile parts and accessories *RMB'000* (unaudited)	Consolidated *RMB'000* (unaudited)
Segment revenue *(Note)*	1,323,063	809	599,064	417,169	55,369	2,395,474
Result						
Segment profit	143,889	37	80,777	28,839	4,619	258,161
Central administration costs						(49,853)
Interest income						81,400
Other income						25,589
Other gains and losses, net						(1,171)
Share of profit of an associate						145
Share of results of joint ventures						10,122
Group's profit before tax						324,393

Note: Rebates to customers amounting to RMB48,842,000 has been reclassified to segment revenue to conform with the current period presentation.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

FOR THE SIX MONTHS ENDED 30 JUNE 2018

3. REVENUE/SEGMENT INFORMATION (CONTINUED)

(i) Segment revenue and results (Continued)

There have been no inter-segment sales during the six months ended 30 June 2018 (2017: Nil).

Segment profit represents the profit earned by each segment without allocation of central administration costs, interest income, other income, other gains and losses (net), share of profit of an associate, share of results of joint ventures and provision for litigation. This is the measure reported to the chief operating decision makers for the purposes of resources allocation and performance assessment.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

FOR THE SIX MONTHS ENDED 30 JUNE 2018

3. REVENUE/SEGMENT INFORMATION (CONTINUED)

(ii) Segment assets and liabilities

The following is an analysis of the Group's assets and liabilities by operating segment:

As at 30 June 2018

	Light-duty trucks *RMB'000* (unaudited)	Multi-purposes vehicles *RMB'000* (unaudited)	Pick-up trucks *RMB'000* (unaudited)	Medium and heavy-duty trucks *RMB'000* (unaudited)	Automobile parts and accessories *RMB'000* (unaudited)	Consolidated *RMB'000* (unaudited)
Assets						
Segment assets	1,210,208	3,425	732,371	1,017,204	435,607	3,398,815
Interchangeably used assets between segments						
– property, plant and equipment						206,507
– prepaid lease payments						38,752
– inventories						404,150
Investment properties						29,909
Interest in an associate						7,519
Interests in joint ventures						515,943
Restricted bank balances, bank deposits and bank balances						5,653,761
Other unallocated assets						249,912
Consolidated total assets						10,505,268
Liabilities						
Segment liabilities	227,492	57	141,791	108,848	–	478,188
Unallocated trade, bills and other payables						2,077,724
Other unallocated liabilities						88,109
Consolidated total liabilities						2,644,021

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

FOR THE SIX MONTHS ENDED 30 JUNE 2018

3. REVENUE/SEGMENT INFORMATION (CONTINUED)

(ii) Segment assets and liabilities (Continued)

As at 31 December 2017

	Light-duty trucks *RMB'000* (audited)	Multi-purposes vehicles *RMB'000* (audited)	Pick-up trucks *RMB'000* (audited)	Medium and heavy-duty trucks *RMB'000* (audited)	Automobile parts and accessories *RMB'000* (audited)	Consolidated *RMB'000* (audited)
Assets						
Segment assets	1,676,184	7,027	652,143	1,188,140	535,010	4,058,504
Interchangeably used assets between segments						
– property, plant and equipment						195,195
– prepaid lease payments						39,443
– inventories						120,888
Investment properties						30,917
Interest in an associate						7,262
Interests in joint ventures						498,781
Restricted bank balances, bank deposits and bank balances						5,673,392
Other unallocated assets						197,607
Consolidated total assets						10,821,989
Liabilities						
Segment liabilities	385,468	138	151,602	97,917	–	635,125
Unallocated trade, bills and other payables						2,096,811
Other unallocated liabilities						27,206
Consolidated total liabilities						2,759,142

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

FOR THE SIX MONTHS ENDED 30 JUNE 2018

3. REVENUE/SEGMENT INFORMATION (CONTINUED)

(ii) Segment assets and liabilities (Continued)

For the purposes of monitoring segment performances and allocating resources between segments:

- All assets are allocated to operating segments other than interchangeably used assets between segments, investment properties, interest in an associate, interests in joint ventures, restricted bank balances, bank deposits and bank balances and other unallocated assets held by the head office; and

- All liabilities are allocated to operating segments other than unallocated trade, bills and other payables and other unallocated liabilities of the head office (including provision for litigation set out in note 17).

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

FOR THE SIX MONTHS ENDED 30 JUNE 2018

4. PROFIT BEFORE TAX

	Six months ended 30 June	
	2018	2017
	RMB'000	*RMB'000*
	(unaudited)	(unaudited)
Profit before tax has been arrived at after charging (crediting):		
Salaries and other payments and benefits	**127,378**	110,821
Retirement benefits scheme contributions	**17,752**	12,556
Total staff costs	**145,130**	123,377
Staff costs capitalised in inventories	**(38,203)**	(32,715)
	106,927	90,662
Loss on disposal of property, plant and equipment, net	**3,237**	51
Amortisation of intangible assets	**13,218**	13,218
Depreciation of property, plant and equipment	**24,807**	24,097
Less: Capitalised in inventories	**(12,281)**	(11,987)
	12,526	12,110

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

FOR THE SIX MONTHS ENDED 30 JUNE 2018

4. PROFIT BEFORE TAX (CONTINUED)

	Six months ended 30 June	
	2018	2017
	RMB'000	*RMB'000*
	(unaudited)	(unaudited)
Depreciation of investment properties	**1,008**	1,008
Release of prepaid lease payments	**691**	692
Minimum lease payments under operating lease in respect of rented premises and production facilities	**17,353**	18,694
Write-down of inventories	**–**	7,295
Net foreign exchange losses	**8,844**	1,120
Cost of inventories recognised as cost of sales	**2,093,041**	1,926,479
Interest income from bank deposits and balances	**(93,152)**	(81,400)
Income from renting investment properties	**(2,948)**	(3,316)
Less: Direct operating expenses from investment properties that generated rental income during the period	**1,362**	1,407
	(1,586)	(1,909)
Income from renting equipment	**(19,748)**	(19,799)

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

FOR THE SIX MONTHS ENDED 30 JUNE 2018

5. INCOME TAX EXPENSE

	Six months ended 30 June	
	2018	2017
	RMB'000	*RMB'000*
	(unaudited)	(unaudited)
Current tax	**31,201**	32,370
Under provision in respect of prior year	**2,133**	–
Deferred tax	**7,079**	15,510
Total income tax expense charged for the period	**40,413**	47,880

According to the Notice of the Enterprise Income Tax for Implementation of Exploration and Development of Western Region (Notice of the State Administration of Taxation No. 12 [2012]) and the Catalogue of Industries Encouraged to Develop in the Western Region (Order of the National Development and Reform Commission No. 15), companies located in the western region of The People's Republic of China (the "PRC") and engaged in the businesses encouraged by the PRC government are entitled to the preferential enterprise income tax ("EIT") rate of 15% if their revenue from encouraged businesses in a year accounts for more than 70% of total revenue. The Company and 重慶慶鈴模具有限公司, a subsidiary of the Company, are engaged in the encouraged businesses included in the related notice and catalogue and the revenue from these encouraged businesses is expected to account for more than 70% of their respective total revenue for the year ending 31 December 2018, and therefore continue to enjoy the preferential EIT rate of 15% for the period.

重慶慶鈴技術中心, a subsidiary of the Company, is subject to EIT rate of 25% (six months ended 30 June 2017: (unaudited) 25%) for the six months ended 30 June 2018.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

FOR THE SIX MONTHS ENDED 30 JUNE 2018

6. DIVIDEND

During the current interim period, a final dividend of RMB0.16 per share in respect of the year ended 31 December 2017 (six months ended 30 June 2017: (unaudited) RMB0.16 per share in respect of the year ended 31 December 2016) was declared to the owners of the Company. The aggregate amount of the final dividend declared in the current interim period amounted to RMB397,163,000 (six months ended 30 June 2017: (unaudited) RMB397,163,000).

The directors of the Company have resolved not to declare an interim dividend for the six months ended 30 June 2018 (six months ended 30 June 2017: (unaudited) 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 June	
	2018	2017
	RMB'000	*RMB'000*
	(unaudited)	(unaudited)
Earnings		
Earnings for the purpose of basic earnings per share (Profit for the period attributable to owners of the Company)	**195,366**	276,186

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

FOR THE SIX MONTHS ENDED 30 JUNE 2018

7. EARNINGS PER SHARE (CONTINUED)

	Six months ended 30 June	
	2018	2017
	'000	*'000*
	(unaudited)	(unaudited)
Number of shares		
Number of shares for the purpose of basic earnings per share	**2,482,268**	2,482,268

No diluted earnings per share were presented as there were no potential ordinary shares in issues in both years presented.

8. PROPERTY, PLANT AND EQUIPMENT

During the current period, the Group acquired property, plant and equipment of approximately RMB23,521,000 (six months ended 30 June 2017: (unaudited) RMB13,474,000) and disposed of property, plant and equipment with net carrying amount of RMB3,752,000 (six months ended 30 June 2017: (unaudited) RMB58,000).

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

FOR THE SIX MONTHS ENDED 30 JUNE 2018

9. TRADE, BILLS AND OTHER RECEIVABLES AND PREPAYMENTS

At the end of the reporting period, the Group's trade, bills and other receivables and prepayments are as follows:

	At 30 June 2018	At 31 December 2017
	RMB'000	*RMB'000*
	(unaudited)	(audited)
Trade receivables, less allowance for doubtful debts	**159,992**	546,499
Bills receivable	**2,175,119**	2,312,308
Other receivables	**65,556**	11,117
Prepayments	**95,633**	66,751
	2,496,300	2,936,675

Before accepting any new external customers, the Group uses an internal credit rating to assess the potential customer's credit quality and assign credit limits thereto. Limits and rating attributed to customers are reviewed twice a year.

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

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

FOR THE SIX MONTHS ENDED 30 JUNE 2018

9. TRADE, BILLS AND OTHER RECEIVABLES AND PREPAYMENTS (CONTINUED)

At the end of the reporting period, the aged analysis of the Group's trade receivables, net of allowance for doubtful debts, presented based on invoice dates at the end of the reporting period, which approximated the respective revenue recognition dates, is as follows:

	At 30 June 2018 *RMB'000* **(unaudited)**	At 31 December 2017 *RMB'000* (audited)
Within 3 months	**126,662**	515,765
Between 3 to 6 months	**7,219**	5,709
Between 7 to 12 months	**22,300**	12,549
Between 1 to 2 years	**2,416**	7,926
Over 2 years	**1,395**	4,550
	159,992	546,499

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

FOR THE SIX MONTHS ENDED 30 JUNE 2018

9. TRADE, BILLS AND OTHER RECEIVABLES AND PREPAYMENTS (CONTINUED)

At the end of the reporting period, the aged analysis of bills receivable of the Group, presented based on maturity date, is as follows:

	At 30 June 2018 *RMB'000* **(unaudited)**	At 31 December 2017 *RMB'000* (audited)
Within 1 month	**238,903**	504,532
Between 1 to 2 months	**196,375**	419,489
Between 2 to 3 months	**514,194**	298,946
Between 3 to 6 months	**1,217,468**	1,089,341
Between 6 to 12 months	**8,179**	–
	2,175,119	2,312,308

All the above bills receivable are guaranteed by banks and their maturity dates are within 12 months.

An accumulated allowance has been made for estimated irrecoverable amount from sales of goods amounting to RMB815,000 as at 30 June 2018 (31 December 2017: (audited) RMB845,000).

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

FOR THE SIX MONTHS ENDED 30 JUNE 2018

9. TRADE, BILLS AND OTHER RECEIVABLES AND PREPAYMENTS (CONTINUED)

Included in the Group's trade and other receivables and prepayments at the end of the reporting period are amounts due from related parties, which are trade in nature, as follows:

	At 30 June 2018 ***RMB'000*** **(unaudited)**	At 31 December 2017 *RMB'000* (audited)
The ultimate holding company of the Company – 慶鈴汽車(集團)有限公司 ("Qingling Group")	**77,871**	441,966
Subsidiaries of Qingling Group	**12,439**	14,533
Associate of the Group – 五十鈴慶鈴(重慶)技術開發有限公司 ("Isuzu Qingling Engineering")	**1**	83
Joint venture of the Group – 慶鈴五十鈴(重慶)汽車銷售服務有限公司 ("Qingling Isuzu Sales")	**35,988**	34,805
Associate of Qingling Group – 五十鈴慶鈴(重慶)汽車零部件有限公司 ("Isuzu Qingling Autoparts")	**283**	6,982
	126,582	498,369

The above amounts due from related parties are unsecured and interest-free.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

FOR THE SIX MONTHS ENDED 30 JUNE 2018

10. IMPAIRMENT ASSESSMENT ON FINANCIAL ASSETS SUBJECT TO ECL MODEL

As part of the Group's credit risk management, the Group applies internal credit rating for its customers in relation to its sales of trucks, vehicles, automobile parts and accessories. A lifetime ECL of RMB815,000 for trade and bills receivables was made based on assessment of internal credit rating of these debtors individually as at 30 June 2018.

The estimated loss rates are estimated based on historical observed default rates over the expected life of debtors and are adjusted for forward-looking information that is available without undue cost or effort.

The Group assesses the impairment for its other receivables individually based on internal credit rating of these debtors which, in the opinion of the directors of the Company, have no significant increase in credit risk since initial recognition. No impairment loss has been recognised under 12m ECL based on the information about the exposure to credit risk for these other receivables which are assessed individually as at 30 June 2018.

The Group assesses that its restricted bank balances, bank deposits and bank balances are at low risk because they are placed with reputable banks with good external credit rating, and no recognition of ECL is considered necessary.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

FOR THE SIX MONTHS ENDED 30 JUNE 2018

10. IMPAIRMENT ASSESSMENT ON FINANCIAL ASSETS SUBJECT TO ECL MODEL (CONTINUED)

Allowance for impairment

The movement in the allowance for impairment in respect of trade and bills receivables during the current interim period was as follows.

	RMB'000 **(unaudited)**
Balance at 1 January 2018	**845**
Amounts written off	**(30)**
Balance at 30 June 2018	**815**

11. BANK DEPOSITS WITH ORIGINAL MATURITY MORE THAN THREE MONTHS

The fixed bank deposits are with a term of 3 to 12 months (31 December 2017: (audited) from 3 to 12 months) and carried interest rates ranging from 0.80% to 5.10% (31 December 2017: (audited) from 1.60% to 4.50%) per annum.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

FOR THE SIX MONTHS ENDED 30 JUNE 2018

12. RESTRICTED BANK BALANCES, BANK DEPOSITS, BANK BALANCES AND CASH

Bank balances and cash

Bank balances carry interest at market rates which range from 0.0001% to 5.10% (31 December 2017 (audited): from 0.0001% to 4.80%) per annum.

Restricted bank balances

The balances have been frozen since 16 August 2015 according to the civil ruling issued by a court in relation to a dispute in respect of a financial credit agreement entered into between the Company's customer and a bank. Details of which are set out in note 17.

13. TRADE, BILLS AND OTHER PAYABLES

At the end of reporting period, the Group's trade, bills and other payables are as follows:

	At 30 June 2018 *RMB'000* **(unaudited)**	At 31 December 2017 *RMB'000* (audited)
Trade and bills payables	**1,936,538**	1,883,428
Advance from customers	**–**	463,805
Selling expenses payables	**186,088**	172,476
Other payables	**146,865**	181,284
Value added tax payables	**1,348**	30,943
	2,270,839	2,731,936

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

FOR THE SIX MONTHS ENDED 30 JUNE 2018

13. TRADE, BILLS AND OTHER PAYABLES (CONTINUED)

At the end of the reporting period, the aged analysis of trade and bills payables of the Group based on invoice dates is as follows:

	At 30 June 2018 ***RMB'000*** **(unaudited)**	At 31 December 2017 *RMB'000* (audited)
Within 3 months	**1,755,893**	1,692,716
Between 3 to 6 months	**167,236**	182,545
Between 7 to 12 months	**6,245**	2,498
Over 1 year	**7,164**	5,669
	1,936,538	1,883,428

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

FOR THE SIX MONTHS ENDED 30 JUNE 2018

13. TRADE, BILLS AND OTHER PAYABLES (CONTINUED)

Included in the balance of trade, bills and other payables at the end of the reporting period are amounts due to related parties as follows:

	At 30 June 2018 ***RMB'000*** **(unaudited)**	At 31 December 2017 *RMB'000* (audited)
Substantial shareholder of the Company – 五十鈴自動車株式会社 ("Isuzu Motors Limited") ("Isuzu")*	**40,411**	98,004
Subsidiaries of Qingling Group	**69,556**	56,386
Isuzu Qingling Autoparts	**–**	2,815
Joint venture of the Group – 慶鈴五十鈴(重慶)發動機有限公司 ("Qingling Isuzu Engine")	**53,025**	71,919
The ultimate holding company of the Company – Qingling Group	**18,260**	–
	181,252	229,124

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

The amounts due to related parties are trade in nature, unsecured, interest-free and the credit period granted on purchases of materials is 3 to 6 months.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

FOR THE SIX MONTHS ENDED 30 JUNE 2018

14. RELATED PARTY TRANSACTIONS AND BALANCES

Apart from the amounts due from and to related companies as disclosed in notes 9 and 13, during the current interim period, the Group entered into the following transactions with related parties that are conducted in accordance with the terms of the relevant agreements:

(1) Transactions with Qingling Group and its subsidiaries

	Six months ended 30 June	
Type of transactions	**2018** ***RMB'000*** **(unaudited)**	2017 *RMB'000* (unaudited)
Sales of chassis to Qingling Group	**574,212**	687,706
Sales of automobile parts and others to:		
– 重慶慶鈴鑄造有限公司 ("Qingling Casting")	**11,836**	12,087
– 重慶慶鈴車橋有限公司 ("Qingling Axle")	**7,143**	5,459
– 重慶慶鈴日發座椅有限公司 ("Qingling Chair")	**4,978**	4,449
– 重慶慶鈴鍛造有限公司 ("Qingling Forging")	**1,154**	1,891
– 重慶慶鈴汽車底盤部品有限公司("Qingling Chassis")	**1,598**	1,359
– 重慶慶鈴專用汽車有限公司 ("Qingling Zhuanyong")	**2,224**	1,082
– 重慶慶鈴汽車機加部品製造有限公司("Qingling Jijia")	**1,145**	510
– 重慶慶鈴鑄鋁有限公司 ("Qingling Cast Aluminium")	**611**	503
– 重慶慶鈴塑料有限公司 ("Qingling Plastics")	**814**	317
– Qingling Group	**709**	2

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

FOR THE SIX MONTHS ENDED 30 JUNE 2018

14. RELATED PARTY TRANSACTIONS AND BALANCES (CONTINUED)

(1) Transactions with Qingling Group and its subsidiaries (Continued)

	Six months ended 30 June	
Type of transactions	**2018**	2017
	RMB'000	*RMB'000*
	(unaudited)	(unaudited)
Purchases of automobile parts from:		
– Qingling Axle	**230,664**	179,899
– Qingling Plastics	**32,781**	27,222
– Qingling Chair	**34,668**	23,814
– Qingling Forging	**19,587**	15,710
– Qingling Casting	**13,858**	8,577
– Qingling Cast Aluminium	**5,373**	4,407
– Qingling Chassis	**2,354**	1,855
– Qingling Zhuanyong	**2,423**	1,757
– Qingling Jijia	**4,564**	1,407

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

FOR THE SIX MONTHS ENDED 30 JUNE 2018

14. RELATED PARTY TRANSACTIONS AND BALANCES (CONTINUED)

(1) Transactions with Qingling Group and its subsidiaries (Continued)

	Six months ended 30 June	
Type of transactions	**2018**	2017
	RMB'000	*RMB'000*
	(unaudited)	(unaudited)
Rental expenses for renting warehouse:		
– Qingling Group	**4,489**	4,057
Rental expenses for renting equipment:		
– Qingling Forging	**10,016**	9,987
– Qingling Group	**435**	434
Rental income for leasing equipment:		
– Qingling Axle	**219**	261

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

FOR THE SIX MONTHS ENDED 30 JUNE 2018

14. RELATED PARTY TRANSACTIONS AND BALANCES (CONTINUED)

(2) Transactions with Isuzu

Type of transactions	Six months ended 30 June	
	2018	2017
	RMB'000	*RMB'000*
	(unaudited)	(unaudited)
Purchase of automobile parts and components	**265,655**	231,719
Royalties and licence fee paid on sales of trucks and other vehicles	**8,251**	8,349
Marketing fee received	**6,064**	2,858

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

FOR THE SIX MONTHS ENDED 30 JUNE 2018

14. RELATED PARTY TRANSACTIONS AND BALANCES (CONTINUED)

(3) Transactions with Qingling Isuzu Engine

	Six months ended 30 June	
Type of transactions	**2018**	2017
	RMB'000	*RMB'000*
	(unaudited)	(unaudited)
Purchases of automobile parts and raw materials	**643,139**	537,590
Sales of automobile parts and raw materials	**389,901**	244,179
Rental income from leasing equipment	**19,586**	19,538
Rental income for investment properties	**2,124**	2,108
Miscellaneous service income	**496**	525

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

FOR THE SIX MONTHS ENDED 30 JUNE 2018

14. RELATED PARTY TRANSACTIONS AND BALANCES (CONTINUED)

(4) Transactions with Qingling Isuzu Sales

	Six months ended 30 June	
Type of transactions	**2018**	2017
	RMB'000	*RMB'000*
	(unaudited)	(unaudited)
Sales of trucks and automobile parts	**12,333**	17,080
Rental income for investment properties	**771**	770
Miscellaneous service income	**5**	–

(5) Transactions with Isuzu Qingling Engineering

	Six months ended 30 June	
Type of transactions	**2018**	2017
	RMB'000	*RMB'000*
	(unaudited)	(unaudited)
Rental income for investment properties	**–**	438
Miscellaneous service income	**1,100**	602

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

FOR THE SIX MONTHS ENDED 30 JUNE 2018

14. RELATED PARTY TRANSACTIONS AND BALANCES (CONTINUED)

(6) Transactions with Isuzu Qingling Autoparts

Type of transactions	Six months ended 30 June	
	2018	2017
	RMB'000	*RMB'000*
	(unaudited)	(unaudited)
Sales of automobile parts and raw materials	**19,064**	27,564
Miscellaneous service income	**999**	1,032
Purchases of automobile parts and raw materials	**220**	–

The above transactions with related parties also constitute connected transactions or continuing connected transactions as defined in Chapter 14A of the Listing Rules and are conducted in accordance with the terms of the relevant agreements.

(7) 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.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

FOR THE SIX MONTHS ENDED 30 JUNE 2018

14. RELATED PARTY TRANSACTIONS AND BALANCES (CONTINUED)

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

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

	Six months ended 30 June	
	2018	2017
	RMB'000	*RMB'000*
	(unaudited)	(unaudited)
Trade sales	**296,803**	288,661
Trade purchases	**205,333**	202,867

	At 30 June 2018	At 31 December 2017
	RMB'000	*RMB'000*
	(unaudited)	(audited)
Trade and other balances due to other government-related entities	**84,405**	64,990
Trade and other balances due from other government-related entities	**280,622**	273,325

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

FOR THE SIX MONTHS ENDED 30 JUNE 2018

14. RELATED PARTY TRANSACTIONS AND BALANCES (CONTINUED)

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

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 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.

(8) 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 2018 amounted to approximately RMB1,875,000 (six months ended 30 June 2017: (unaudited) RMB1,885,000).

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

FOR THE SIX MONTHS ENDED 30 JUNE 2018

15. COMMITMENTS

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

	At 30 June 2018	At 31 December 2017
	RMB'000	*RMB'000*
	(unaudited)	(audited)
Contracted for but not provided in the condensed consolidated financial statements in respect of acquisition of property, plant and equipment	**36,367**	33,860

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

FOR THE SIX MONTHS ENDED 30 JUNE 2018

16. 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:

	At 30 June 2018 ***RMB'000*** **(unaudited)**	At 31 December 2017 *RMB'000* (audited)
With Qingling Group		
Within one year	**10,934**	10,021
In the second to fifth year, inclusive	**5,467**	10,021
	16,401	20,042
With Qingling Forging		
Within one year	**23,370**	23,370
In the second to fifth year, inclusive	**11,685**	23,370
	35,055	46,740

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

FOR THE SIX MONTHS ENDED 30 JUNE 2018

16. OPERATING LEASES (CONTINUED)

The Group as lessee (Continued)

	At 30 June 2018 ***RMB'000*** **(unaudited)**	At 31 December 2017 *RMB'000* (audited)
With other landlords		
Within one year	**2,418**	621
In the second to fifth year, inclusive	**370**	414
	2,788	1,035

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.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

FOR THE SIX MONTHS ENDED 30 JUNE 2018

16. OPERATING LEASES (CONTINUED)

The Group as lessor

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

	At 30 June 2018 ***RMB'000*** **(unaudited)**	At 31 December 2017 *RMB'000* (audited)
With Qingling Isuzu Engine		
Within one year	**49,506**	50,401
In the second to fifth year, inclusive	**24,305**	48,610
	73,811	99,011
With Qingling Isuzu Sales		
Within one year	**1,710**	1,710
In the second to fifth year, inclusive	**855**	1,710
	2,565	3,420
With Qingling Axle		
Within one year	**405**	510
In the second to fifth year, inclusive	**150**	300
	555	810

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

FOR THE SIX MONTHS ENDED 30 JUNE 2018

16. OPERATING LEASES (CONTINUED)

The Group as lessor (Continued)

	At 30 June 2018 *RMB'000* (unaudited)	At 31 December 2017 *RMB'000* (audited)
With Isuzu Qingling Engineering		
Within one year	–	972
In the second to fifth year, inclusive	–	972
	–	1,944
With other tenants		
Within one year	**67**	–

Other than the above, the Group does not have any other commitments for future minimum lease payments under non-cancellable operating leases of property, plant and equipment and investment properties at the end of the reporting period.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

FOR THE SIX MONTHS ENDED 30 JUNE 2018

17. MATERIAL LITIGATION

As at 30 June 2018, the Company has involved in one material legal proceeding as follows:

According to the civil ruling issued by 深圳市福田區人民法院 (transliterated as People's Court of Futian District, Shenzhen) (the "Futian Court") in relation to a dispute in respect of a financial credit agreement entered into between the Company's customer (the "Customer", who is independent to the Company) and another bank ("Bank A"), the Group's bank balances of RMB79,999,000 have been frozen since 16 August 2015.

On 29 September 2015 and 22 October 2015, the Company formally received summons sent by the Futian Court dated 25 September 2015 and 19 October 2015, respectively, and pursuant to which Bank A, as the plaintiff, has initiated legal proceedings against six defendants including the Customer and the Company (the "2015 Litigation") in the Futian Court.

In the 2015 Litigation, Bank A alleged that the Customer has failed to meet the margin calls according to the requirements under a credit agreement, constituting an event of default of such agreement, and that Bank A is also entitled to demand the Customer to prematurely repay all the amount granted under the relevant credit facilities. Bank A further alleged that the Company did not, as instructed by Bank A, deliver the vehicles that had not been picked up but paid by the Customer in full with loan to the warehouse as specified by Bank A, leading to a breach of the relevant credit agreement, and should be jointly and severally liable to compensate for the losses it suffered. Bank A stated that the outstanding credit balances due from the Customer were RMB80 million in aggregate.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

FOR THE SIX MONTHS ENDED 30 JUNE 2018

17. MATERIAL LITIGATION (CONTINUED)

In March 2016, a final ruling from 深圳市中級人民法院 (transliterated as Shenzhen Intermediate People's Court) (the "Shenzhen Court") that the 2015 Litigation is under the jurisdiction of the Shenzhen Court was received. In July 2016, Bank A assigned its right to the 2015 Litigation to another company ("Company X") and the Shenzhen Court ruled that the plaintiff of the 2015 Litigation was changed from Bank A to Company X.

In October 2017, the Shenzhen Court ruled that since Company X had transferred its claims in the 2015 Litigation to another company ("Company Y"), the replacement of Company X by Company Y as the plaintiff of the 2015 Litigation was approved. In December 2017, the 2015 Litigation was heard in the Shenzhen Court. However, the parties failed to settle through mediation and the Shenzhen court decided that it would set a date to hand down its judgment.

The Company received the judgment on the 2015 Litigation (the "Judgment") dated 14 May 2018 from the Shenzhen Court on 25 May 2018. Summary of the Judgment is as follows:

(1) the Customer shall pay Company Y the principal amount of approximately RMB80 million and the interest of the loans;

(2) related guarantors (guarantor A, guarantor B, guarantee company A and guarantee company B) shall be jointly and severally liable to compensate Company Y in respect of the abovementioned indebtedness of the Customer; and

(3) the Company shall assume the supplementary compensation liability for the abovementioned indebtedness of the Customer and the aforesaid guarantors. Upon the supplementary repayment, the Company is entitled to recover it from the Customer.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

FOR THE SIX MONTHS ENDED 30 JUNE 2018

17. MATERIAL LITIGATION (CONTINUED)

The Company, after reviewing all documents and contracts on the 2015 Litigation and consulting and taking into account the opinion of the Company's PRC legal adviser, is of the view that the Judgment contains certain degree of bias towards recognising the legal facts and legal relations involved in the 2015 Litigation, resulting in an inappropriate Judgment of the possible legal responsibility of the Company, or an excessive exacerbation in the consequences that should be borne by the Company. Therefore, the Company has appealed to 廣東省高級人民法院 (transliterated as Guangdong Province Higher People's Court), where the second trial of the case has been accepted but has not yet been heard as at the approval date of the condensed consolidated financial statements.

Although the Company reviewed all the relevant documents and agreements and the order of the Judgment in relation to the 2015 Litigation and has appealed based on the aforementioned reasons, the directors of the Company also considered it is possible for the Company to bear certain liabilities in light of the Judgment and, based on the Company's assessment with reference to the opinion of its PRC legal adviser, RMB80,000,000 has been made in the condensed consolidated financial statements during the current interim period.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

FOR THE SIX MONTHS ENDED 30 JUNE 2018

18. EVENTS AFTER THE REPORTING PERIOD

(a) On 4 July 2018, the Company and Isuzu entered into (i) VC66(CYH) National VIb Technology Development Agreement; (ii) VC66(CYZ) National VIb Technology Development Agreement; and (iii) VC66(EXR/EXZ) National VIb Technology Development Agreement, respectively, pursuant to which the Company engages Isuzu to carry out design change related development for certain vehicles so as to allow equipping such vehicles with the sample engine for VC66 series vehicles and ensure compliance with the National VIb emission regulations and other specifications and to provide technical guidance or study services for a total consideration of Japanese Yen 1,269,990,000 (equivalent to approximately RMB76,580,000). Further details of the above were set out in the Company's announcement dated 4 July 2018.

(b) On 17 July 2018, the Company proposed to establish a wholly-owned subsidiary in Shenzhen with an expected registered capital of RMB9 million. Its scope of business will cover the sale of Qingling Isuzu series vehicles, the sale of new energy vehicles and after-sale services, the sale of vehicle components, vehicle rental, import and export businesses and logistics transportation. On 17 August 2018, the aforesaid subsidiary has been established. Further details of the above were set out in the Company's announcement dated 17 July 2018.

2018 FIRST HALF-YEARLY RESULTS

For the six months ended 30 June 2018, the Group sold 24,274 vehicles, representing an decrease of 4.83% over the corresponding period of the previous year. Sales revenue amounted to RMB2.57 billion, representing an increase of 7.33% over the corresponding period of the previous year. Profit after tax was RMB198 million, representing a decrease of 28.54%.

MANAGEMENT DISCUSSION AND ANALYSIS

REVIEW OF OPERATION

In the first half of the year, with the continuous growth of the commercial vehicle market, the market competition were further intensified; faced with opportunities and challenges in the wake of comprehensive opening up, the automobile sector are going through comprehensive transformation. Meanwhile, enterprises were under the pressure and challenges of industrial development, product competitiveness, marketing competitiveness and mechanism reform in the course of innovation and development. In the first half of the year, sales of commercial trucks in China amounted to 2,290,000, representing a year-on-year increase of 10.6%. At the beginning of the year, the Company specified the annual work targets, key tasks and time requirements for each department, and formulated normalized systems and measures. As a result, the Company's operation quality was improved steadily and the employees' income continued to increase.

1. **Industry expansion.** New energy vehicle business was initiated; the special truck business was developing at a higher pace; development in external distribution market of auto-parts and assemblies was accelerated.

2. **Product competitiveness.** Thanks to the product R&D and launch mechanism of "one batch ready for sale, one batch under research and one batch in the pipeline", the product portfolio was enriched.

3. **Marketing competitiveness.** First, marketing network construction, support and management were standardized; second, analysis and study on and development services for different customers were strengthened; third, regular training mechanism was established; fourth, after-sales service capability and standards were improved; fifth, the construction of vehicle export system kicked off.

4. **Enhanced QCD basic management.** In respect of the production system, consistent efforts were exerted on the realization, verification and rectification of production capacity per shift in the three final assembly lines so as to give play to highly skilled personnel and carry out quality and efficiency improvement; in terms of the quality system, emphasis was placed on "newness in two aspects, five key points and rapid action", which resulted in substantial improvement in the first time acceptability of vehicle rolling off the production line and lower-than-targeted defective number of every 1,000 sets and amount claimed for repair replacement and compensation services of single faulty product; the financial department and purchasing department carried out cost reduction work to further reduce product cost.

5. **Deepened reform of market-oriented mechanisms.** First, the innovation enthusiasm of the entire personnel was further inspired; second, the performance-based differentiated remuneration was fully implemented; third, execution and collaborative work that integrated various departments were reinforced.

OUTLOOK AND PROSPECTS

In response to the current situation, pressure and challenges, the enterprises will continue to highlight "business sectors, products, marketing and mechanism" and carry on with reform and innovation. In the second half of the year, in the aspect of business sectors, the Company will emphatically accelerate the development of new energy vehicles, refitted vehicles and engines; as for products, the Company will speed up the R&D and launch of new products to fill the specification gaps in the market and promote the preparatory work for the R&D and mass production of the full array of "Standard VI" products; in terms of marketing, focus was fixed on network construction, customer development and management enhancement; in respect of mechanism, the intrinsic vitality of enterprises will be further aroused and the assumption of responsibility and execution capacity will be strengthened. Major work arrangements for the second half of the year are set out as below:

1. **Improving marketing competitiveness systematically to increase sales.** The Company will pay adequate attention to the implementation of marketing network based on the marketing scheme; reinforce development of KOL customers; intensify marketing management by consummating the management systems covering personnel management, work process and business expansion, the supervision and inspection measures, appraisal measures so as to tighten discipline and strengthen monitoring; and make great efforts on vehicle exports.

2. **Deepening the new product R&D and launch mechanism of "one batch ready for sale, one batch under research and one batch in the pipeline".** The Company will give top priority to the development of the full array of "Standard VI" products; continue to replenish the basic models of vehicles and initiate the development of intelligent connected vehicles; and require the development system to provide satisfactory technological services for newly rolled out products in the initial distribution stage.

3. **Accelerating the development of the new energy vehicle business.** The Company will ensure its success in obtaining the qualification approval for engaging in new energy vehicle production; become ready for providing sales and after-sales services of new energy vehicles in the market quickly; and promote the development of the sample of electric vehicle and strive for distribution of the same in the market at a rapid pace.

4. **Intensifying and extending refitted special vehicle business.** The Company will accelerate the market distribution of the finished products and pace up in the development and launch of new pick-up trucks.

5. **Hurrying the leveling up of production and product delivery capabilities and in graining the quality awareness.** The Company will proceed from the assembling quality and efficiency to level up the production and product delivery capabilities; it will comply strictly with the delivery deadline and bring to rigid account; the Company make it a must to enhance integrated quality control mechanism and awareness, lay the groundwork for the "newness in two aspects, five key points and rapid action", strive to improve the commercial appeal and workmanship fineness of the product appearance and rectify quality defects of new products in a prompt manner.

6. **Further deepening mechanism reform.** The Company will carry forward the optimization and amelioration of the promotion appraisal, salary and performance systems at a gallop, experiment on and carry out competitive selection of personnel, and further deepen the human resource reform.

FINANCIAL REVIEW

FINANCIAL PERFORMANCE

For the six months ended 30 June 2018, the revenue of the Group was RMB2,571,050,000, representing an increase of 7.33% as compared to the corresponding period last year due to the increase of unit price.

Gross profit for the period was RMB478,009,000 representing an increase of 3.53% as compared to the corresponding period last year. Gross profit margin of the Group for the period was 18.59%, it was 19.27% for the corresponding period last year. Profit of the Group for the period attributable to owners of the Company was RMB195,366,000, representing an decrease of 29.26% as compared to the corresponding period last year.

For the six months ended 30 June 2018, other income mainly included bank interest income and rental income, totaling RMB116,480,000, representing an increase of 8.87% as compared to the corresponding period last year. Bank interest income for the period has been increased comparing with that for previous period.

For the six months ended 30 June 2018, the total distribution and selling expenses of the Group mainly including transportation costs, maintenance fees and other market promotion expenses, were RMB81,974,000, representing an decrease of 26.03% as compared to the corresponding period last year, mainly due to the decrease in business promotion expenses for the period as compared to the corresponding period last year.

For the six months ended 30 June 2018, the total administrative expenses of the Group mainly including staff's salaries and allowance, insurance premium, maintenance fees and other administrative expenses, were RMB112,997,000, which is comparable with RMB109,995,000 of the corresponding period last year.

For the six months ended 30 June 2018, the share of results of an associate and joint ventures to the Group was RMB17,419,000, representing an increase of 69.66% as compared to the corresponding period last year, principally due to the increase in profit of joint ventures during the period.

For the six months ended 30 June 2018, basic earnings per share was RMB0.08. The Company did not issue any new shares during the period.

FINANCIAL POSITION

As at 30 June 2018, the total assets and total liabilities of the Group were RMB10,505,268,000 and RMB2,644,021,000 respectively.

The non-current assets were RMB1,567,917,000, mainly including property, plant and equipment, interests in joint ventures and intangible assets.

The total current assets amounted to RMB8,937,351,000, mainly including RMB785,907,000 of inventories, RMB2,496,300,000 of trade, bills and other receivables and prepayments, RMB1,731,927,000 of bank deposits with original maturity more than three months and RMB3,921,834,000 of bank deposits and bank balances (including restricted bank balances of RMB79,999,000) and cash.

The total current liabilities amounted to RMB2,638,361,000, mainly including trade, bills and other payables of RMB2,270,839,000, provision of litigation of RMB80,000,000, tax liabilities of RMB2,449,000, contract liabilities of RMB236,362,000 and refund liabilities of RMB48,711,000.

As at 30 June 2018, the group's non-current liability amount to RMB5,660,000 which mainly includes the government grants subsidising the Group's equipment for the environmental protection.

Net current assets fell from RMB6,490,975,000 as at 31 December 2017 to RMB6,298,990,000 as at 30 June 2018, representing a decrease of 2.96%.

LIQUIDITY AND CAPITAL STRUCTURE

The Group's working capital requirement was financed by its own cash flow.

Gearing ratio represented the percentage of total liabilities over total equity as per condensed consolidated statement of financial position. The gearing ratio of the Group as at 30 June 2018 was 33.63% (as at 31 December 2017: 34.22%).

Issued share capital as at 30 June 2018 maintained at RMB2,482,268,000 and no share was issued during this period of six months.

For the six months ended 30 June 2018, there was no material change in the financing strategies of the Group and the Group did not incur any bank borrowings nor any non-current liabilities. The Company would closely monitor the financial and liquidity position of the Group and financial market from time to time in order to formulate financing strategies appropriate to the Group.

The total equity attributable to owners of the Company as at 30 June 2018 was RMB7,556,506,000. The net asset per share (calculated by dividing the total equity attributable to owners of the Company by the number of ordinary shares in issue) as at 30 June 2018 was RMB3.04.

SIGNIFICANT INVESTMENT

As at 30 June 2018, the Group's interests in joint ventures were RMB515,943,000 and interest in an associate was RMB7,519,000 which mainly included the interest in Qingling Isuzu Engine, a joint venture, of RMB440,620,000. For the six months ended 30 June 2018, the joint ventures and associate of the Group were under normal operation. The revenue of Qingling Isuzu Engine increased for the six months ended 30 June 2018 from the corresponding period last year that was mainly attributable to increase in market demand.

During the period ended 30 June 2018, there were no significant acquisition and disposal of the Group.

SEGMENT INFORMATION

The revenue contributed by light-duty trucks and pick-up trucks were RMB1,171,965,000 and RMB742,555,000 respectively, representing 74.46% of the total revenue and 83.00% of the total segment profit. Light-duty trucks and pick-up trucks are currently the major products accounting for the highest contribution to the Group.

The revenue contributed by medium and heavy-duty trucks was RMB525,011,000, representing 20.42% of the total revenue. The profit from operation attributable to them was RMB38,979,000, accounting for 13.13% of the segment profit.

PLEDGE OF ASSETS

During the period ended 30 June 2018, no asset of the Group was pledged for financial facilities (during the period ended 30 June 2017: Nil).

EFFECTS OF FOREIGN EXCHANGE RATE CHANGES

As at 30 June 2018, the Group had bank balances of foreign currency including Hong Kong dollars of RMB20,794,000 and foreign currency payables and other payables of RMB40,411,000 and contract liabilities of RMB13,525,000.

The major foreign currency transactions of the Group was the purchasing business of automobile parts denominated in Japanese Yen. The Group did not encounter any difficulty or suffer any significant impact on its operations or liquidity as a result of the fluctuation of the exchange rate.

COMMITMENTS

As at 30 June 2018, the Group had capital commitments of RMB36,367,000 that had been contracted for but not provided in the condensed consolidated financial statements, mainly including the outstanding consideration payable concerning property, plant and equipment. The Group expects to finance the above capital requirement by its own cash flows.

INTERIM DIVIDEND

The Board has resolved not to declare an interim dividend for the six months ended 30 June 2018 (for the period ended 30 June 2017: nil).

PURCHASE, REDEMPTION AND SALE OF THE COMPANY'S LISTED SECURITIES

During the six months ended 30 June 2018, there were no purchase, redemption or sales of the Company's listed securities by the Company or any of its subsidiaries.

EMPLOYEES AND REMUNERATION POLICY

As at 30 June 2018, the Group had 2,854 employees. For the six months ended 30 June 2018, labour cost was RMB145,130,000. The Group determines the emoluments payable to its employees based on their performances, experience and prevailing industry practices while the Group's remuneration policy and packages are reviewed on a regular basis so as to ensure that the pay levels are competitive and effective in attracting, retaining and motivating employees. Depending on the assessment about their work performances, employees may be granted bonuses and rewards which in turn provide the motives and incentives for better individual performance.

SALES OF STAFF QUARTERS

For the six months ended 30 June 2018, the Group has not sold any staff quarters to its employees.

STRUCTURE OF SHAREHOLDING

(1) As at 30 June 2018, 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 2018, 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 held	Capacity	Percentage of the relevant 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	H shares	496,453,654 shares	Beneficial Owner	40.08%	20.00%
Allianz SE	H shares	102,122,000 shares *(Note)*	Interest of controlled corporation	8.24%	4.11%
Edgbaston Investment Partners LLP	H shares	68,655,000 shares	Investment manager	5.54%	2.77%

Note:

The following is a breakdown of the interests in shares of the Company held by Allianz SE:

Name of controlled corporation	Name of controlling shareholder	Percentage of control	Total interest in shares Direct interest	Indirect interest
Allianz Asset Management AG	Allianz SE	100%	–	102,122,000
Allianz Global Investors GmbH	Allianz Asset Management AG	100%	–	101,600,000
RCM Asia Pacific Ltd.	Allianz Global Investors GmbH	100%	98,240,000	–
Allianz Global Investors Taiwan Ltd.	Allianz Global Investors GmbH	100%	3,360,000	–
Allianz Asset Management of America Holdings Inc.	Allianz Asset Management AG	100%	–	522,000
Allianz Asset Management of America L.P.	Allianz Asset Management of America Holdings Inc.	100%	–	522,000
Allianz Global Investors U.S. Holdings LLC	Allianz Asset Management of America L.P.	100%	–	522,000
Allianz Global Investors Fund Management LLC	Allianz Global Investors U.S. Holdings LLC	100%	522,000	–

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 2018.

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

As at 30 June 2018, none of the directors, supervisors and chief executives of the Company had any interests or short positions in the shares, underlying shares and 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 2018, 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.

CORPORATE GOVERNANCE

The Company puts high emphasis on endeavors to maintain high standards of corporate governance. The Board believes that good corporate governance practices are important to promote investors' confidence and protect the interest of our shareholders. We attach importance to our staff, our code of conduct and our corporate policies and standards, which together form the basis or our corporate governance practices. The Board has adopted sound corporate and disclosure practices, and is committed to continuously improving those practices and cultivating an ethical corporate culture.

During the six months ended 30 June 2018, the Company has complied with the code provisions of the Corporate Governance Code as set out in Appendix 14 of the Rules Governing the Listing of Securities on the Stock Exchange (the "**Listing Rules**") except for the deviation from code provision A.1.8 of the Corporate Governance Code as stated below.

Under code provision A.1.8 of the Corporate Governance Code, an issuer should arrange appropriate insurance cover in respect of legal action against its directors. With regular, timely and effective communications among the directors and the management of the Group, the management of the Group believes that all potential claims and legal actions against the directors of the Company can be handled effectively, and the possibility of actual litigation against the directors of the Company is relatively low. The Company will review and consider to make such arrangement as and when it thinks necessary.

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 of the Company. Having made specific enquiry of all directors and supervisors of the Company, the Company confirmed all directors and supervisors of the Company have complied with the required standard set out in the Model Code during the six months ended 30 June 2018.

EVENTS AFTER THE LATEST ANNUAL REPORT

Save as disclosed in this report, there were no other significant events affecting the Company nor any of its subsidiaries after the latest annual report requiring disclosure in this report.

INDEPENDENT REVIEW

The interim results for the six months ended 30 June 2018 are unaudited, but have been reviewed by the auditors of the Company 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 Accounts. The interim results have also been reviewed by the audit committee of the Company.

CHANGE IN DIRECTOR'S INFORMATION

In accordance with Rule 13.51B(1) of the Listing Rules, during the period from 23 March 2018 (as the date of approval of the 2017 Annual Report of the Company) to 29 August 2018 (as the date of approval of the 2018 Interim Report of the Company), changes in information required to be disclosed by Directors pursuant to paragraphs (a) to (e) and (g) of Rule 13.51(2) of the Listing Rules are as follows:

1. Mr. Keiichiro MAEGAKI resigned as the Vice Chairman and the General Manager of the Company with effect from 30 May 2018.

2. Mr. Shuichi HAYASHI has been appointed as the Vice Chairman and the General Manager of the Company with effect from 30 May 2018.

3. Mr. Etsuo YAMAMOTO resigned as a Director of the Company with effect from 30 May 2018.

PUBLICATION OF FINANCIAL INFORMATION

The Company's 2018 interim report containing all the financial information required by the Listing Rules will be dispatched to the shareholders and published on the websites of the Stock Exchange (www.hkexnews.hk) and the Company (www.qingling.com.cn) in due course.

By Order of the Board
Qingling Motors Co. Ltd
ZOU Guanghua
Company Secretary

Chongqing, the PRC, 29 August 2018

CORPORATE INFORMATION

DIRECTORS

Executive Directors:
LUO Yuguang *(Chairman)*
Shuichi HAYASHI *(Vice Chairman and General Manager)*
(appointed on 30 May 2018)
Keiichiro MAEGAKI
Masanori OTA
Etsuo YAMAMOTO (resigned on 30 May 2018)
LI Juxing
XU Song

Independent Non-executive Directors:
LONG Tao
SONG Xiaojiang
LIU Tianni
LIU Erh Fei

SUPERVISORS

GUAN Jinming (resigned on 30 May 2018)
MIN Qing
LEI Bin

COMPANY SECRETARY

responsible for PRC affairs: ZOU Guanghua
responsible for Hong Kong affairs: TUNG Tat Chiu Michael

AUDIT COMMITTEE

SONG Xiaojiang *(Committee Chairman)*
LONG Tao
LIU Erh Fei
LIU Tianni

REMUNERATION COMMITTEE
SONG Xiaojiang *(Committee Chairman)*
LUO Yuguang
LONG Tao
LIU Erh Fei
LIU Tianni

NOMINATION COMMITTEE
LUO Yuguang *(Committee Chairman)*
LONG Tao
SONG Xiaojiang
LIU Erh Fei
LIU Tianni

CORPORATE INFORMATION AVAILABLE AT
Qingling Motors Co. Ltd

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Jiulongpo District
Chongqing
the People's Republic of China

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183 Queen's Road East
Wan Chai, Hong Kong

H SHARE LISTING PLACE

The Stock Exchange of Hong Kong Limited
Stock code: 1122

PRINCIPAL BANKERS

Bank of China, Huayu Road Branch
Industrial and Commercial Bank of China, Huafu Road Branch
Industrial Bank, Business Department of Chongqing Branch
China CITIC Bank, Jiangbei Sub-branch

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