

INTERIM DIVIDEND

The directors have resolved not to declare an interim dividend for the six months ended 30th June, 2003 (for the six months ended 30th June, 2002: nil).

REVIEW OF OPERATIONS FOR THE FIRST HALF OF THE YEAR

Since the beginning of the year, competition in the domestic automobile market is more vigorous than ever. The Company has managed to withstand the “imitation” products produced by the unregulated competition from medium-to-low end rivals. Furthermore, the Company has also overcome the negative impact caused by the outbreak of SARS. Through the sustained development and enhancement of competitiveness by plough in strenuous and meticulous efforts, the Company has achieved satisfactory results. The Company’s production and sales volume reached 16,359 vehicles, representing an increase of 6% over the same period in last year. Turnover amounted to RMB1.72 billion, an increase of 16% over the same period in last year, while net profit for the period was RMB68 million, representing an increase of 15% over the same period in last year.

1. The Company fully capitalised the competitive advantage of Isuzu commercial vehicles. As a result, sales of the N series remained steady and amounted to 9,849 vehicles, which is similar to the sales volume for the same period in last year, while sales of the T series reached 5,352 vehicles, representing a significant increment of 48% as compared with the corresponding period in 2002.
2. The Company has captured the development potential of markets in Guangdong, Zhejiang, Jiangsu, Shandong and Shanghai for sustained growth. Continued and further efforts have been made in the development of markets in the western area and considerable growth has been achieved.
3. The Company has put in extra efforts in cultivating distribution agents and forging relationship with new customers directly. The scope of sales was extended and a prestigious brand image established. Substantial attention was paid to the basic management of logistics related to sales and distribution and the flow of information. As a result, new milestones were reached in sales and marketing.

4. By making reference to overseas competitive standards in new technology and quality, the Company has launched a “Quality Enhancement” campaign in production and management divisions. The ultimate goal is to raise the standards in production, quality and facilities management as well as to motivate management and employees to enhance their quality.

OUTLOOK

In order to be fully prepared for the fierce market competition, the Company will continue to reinforce measures that have proved to be effective while at the same time further develop its competitive strengths. The Company looks ahead to the future with confidence.

1. Sustained efforts will be made in developing the market for Isuzu light-duty and heavy-duty trucks. A new round of “door to door” service and promotional activities will be launched to expand its market share.
2. To cope with the requirements of national environmental regulations and changes in market demands, the Company will continue to upgrade its production technology and product functions in order to consolidate the Company’s market leading position over its rivals.
3. The “Quality Enhancement” campaign will be further expanded in order to raise internal management standards and overall competence of staff as a means to increase the corporate competitiveness.

Despite vigorous competition, the Company has confidence in expanding its market share and achieving satisfactory results.

FINANCIAL RESOURCES AND CASH FLOW SITUATION

Shareholders’ interest as at 30th June, 2003 decreased by 0.83% compared with that as at 31st December, 2002. This decrease was mainly due to the net profit for the period amounted to RMB68,334,000 and the payment of 2002 dividend RMB124,113,000.

Net borrowings of the Group as at 30th June, 2003 amounted to RMB825,000,000, which were mainly advanced from the bank. The Group’s current assets were mainly bank deposits and cash, inventories like raw materials and finished goods, bills

receivables and trade receivables which amounted to RMB4,692,800,000, whereas current liabilities amounted to RMB1,891,928,000. As at 30th June, 2003, balance of bank deposits and cash amounted to RMB2,260,850,000.

As at 30th June, 2003, no assets had been pledged by the Group as security and the gearing ratio of the Group was 21.59%, calculated by dividing total liabilities over total assets. The Group did not have any significant contingent liabilities. The Group continued their prudent policy in managing foreign exchange risks through exchange contracts in order to minimize foreign exchange risks.

PREFERENTIAL TREATMENTS FOR CONSOLIDATED INCOME TAX AND LOCAL TAX

The Company was subject to PRC Enterprise Tax at the rate of 24% under the Income Tax Law of the PRC for Enterprises with Foreign Investment and Foreign Enterprises in previous years. Pursuant to Clause 3, Section 2 of the “Notice of certain measures for implementation of exploration and development of western zone” issued by the State Council of the PRC, domestic investment enterprises and foreign investment enterprises located in the western zone of the PRC of a production nature and are engaged in businesses encouraged by the State Government are entitled to PRC Enterprise Income Tax at the rate of 15% effective from 1st January, 2001. Accordingly, the Company, as confirmed by the Chongqing Branch Office of the State Tax Bureau, is subject to PRC Enterprise Income Tax at the rate of 15% from 1st January, 2001.

DESIGNATED DEPOSITS

As at 30th June, 2003, the Group did not have any designated deposits or any time-deposits that were overdue but could not be collected upon maturity.

EMPLOYEES

As at 30th June, 2003, the Group has 3,029 employees. During the period, no material change is noted for the number of employees nor their remuneration policy. The Group actively provides various training to its staff of all levels. Isuzu Motors Ltd also provides training assistance so as to improve the technical skills of the staff.

SALE OF STAFF QUARTERS

For the six months ended 30th June, 2003, the Group had made no sale of any staff quarters to its employees.

SHAREHOLDING STRUCTURE

(I) As at 30th June, 2003, 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	50.10%
Foreign Shares (H Shares)	1,238,651,865 shares	49.90%

(II) Substantial shareholders

As at 30th June 2003, shareholders having an interest in 5% or more of the issued share capital of the Company as recorded in the register of interests in shares and short positions required to be kept by the Company pursuant to Section 336(1) of Securities and Futures Ordinance (“SFO”) were as follows:

Name of shareholders	Class of shares	Corporate Interests	Total Interests	Percentage of the relevant class of share capital	Percentage of entire share capital
Qingling Motors (Group) Company Limited	Domestic Shares	1,243,616,403 shares (Note 1)	1,243,616,403 shares	100%	50.10%
Isuzu Motors Ltd	Foreign Shares (H Shares)	171,493,254 shares (Note 1)	171,493,254 shares	13.85%	6.91%

Name of shareholders	Class of shares	Corporate Interests	Total Interests	Percentage of the relevant class of share capital	Percentage of entire share capital
J.P. Morgan Chase & Co.	Foreign Shares (H Shares)	162,254,000 shares <i>(Note 2)</i>	162,254,000 shares	13.10%	6.54%
		38,578,000 shares <i>(Note 3)</i>	38,578,000 shares	3.11%	1.55%
Templeton Asset Management Limited	Foreign Shares (H Shares)	137,829,669 shares <i>(Note 4)</i>	137,829,669 shares	11.13%	5.55%
J.F. Asset Management Limited	Foreign Shares (H Shares)	115,696,000 shares <i>(Note 5)</i>	115,696,000 shares	9.34%	4.66%

Notes

1. These shares represent interests beneficially held by the shareholder itself or through other company as nominee for the shareholder.
2. The 162,254,000 H Shares were held by J.P. Morgan Chase & Co. in the following capacities:

No. of Shares	Capacity
100,000	beneficial owner
123,576,000	investment manager
38,578,000	other

and include 38,578,000 H Shares in the lending pool referred to in Note 3 below.

3. The 38,578,000 H Shares are shares in the lending pool and are included in the 162,254,000 H Shares referred to in Note 2 above.
4. The 137,829,669 H Shares were held by Templeton Asset Management Limited as an investment manager.
5. The 115,696,000 H Shares were held by J.F. Asset Management Limited as an investment manager. J.P. Morgan Fleming Asset Management Holdings Inc. held 100% interest in J.P. Morgan Fleming Asset Management (Asia) Inc. which in turn held 99.99% interest in J.F. Asset Management Limited. By virtue of their direct and indirect interest in J.F. Asset Management Limited, J.P. Morgan Fleming Asset Management Holdings Inc. and J.P. Morgan Fleming Asset Management (Asia) Inc. were deemed to be interested in 115,696,000 H Shares held by J.F. Asset Management Limited.

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

As at 30th June, 2003, none of the directors, supervisors and senior management of the Company or their associates had an interest or short positions in the shares, underlying shares or debentures of the Company or its associated corporations as defined under the SFO. None of the directors, supervisors and chief executives of the Company, their spouse or children under 18 had any rights to subscribe for equity or debt securities of the Company, nor has any of them exercised such rights.

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

Neither the Company nor any of its subsidiaries has purchased, sold, redeemed or cancelled any of the Company's listed securities during the six months ended 30th June, 2003.

CODE OF BEST PRACTICE

The Company has not established an audit committee (the "Audit Committee") to review and supervise the Company's financial reporting process and internal control system in accordance with paragraph 14 of the Code of Best Practice ("Code of Best Practice") as set out in Appendix 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Stock Exchange"). Since its establishment, the Company has set up a Supervisory Committee carrying out duties and functions similar to those of the Audit Committee. The differences are that the Supervisory Committee is composed of three members, of whom two are elected and removed by shareholders' general meeting and the other one must be an employee of the Company and is elected and removed through democratic election by the staff and workers of the Company and the Supervisory Committee is responsible to shareholders' general meeting instead of the board of directors, whereas members of the Audit Committee are elected among non-executive directors of the Company. Save for the above, none of the directors are aware of any information that would reasonably indicate that the Company is not, or was not, for the six months ended 30th June, 2003 in compliance with the Code of Best Practice.

By Order of the Board
Wu Yun
Chairman

Chongqing, the PRC
22nd August, 2003