



慶鈴汽車股份有限公司

QINGLING MOTORS CO. LTD

(a sino-foreign joint stock limited company incorporated in the People's Republic of China with limited liability)
(Stock Code : 1122)

Announcement of Interim Results 2008

The board of directors (the “Board”) of Qingling Motors Co. Ltd (the “Company”) is pleased to announce that unaudited condensed consolidated interim results of the Company and its subsidiaries (together the “Group”) for the six month ended 30 June 2008, together with comparative figures for the corresponding period in 2007:

CONDENSED CONSOLIDATED INCOME STATEMENT

For the six months ended 30 June 2008

	Notes	1.1.2008 to 30.6.2008 RMB'000 (Unaudited)	1.1.2007 to 30.6.2007 RMB'000 (Unaudited)
Revenue	3	1,801,833	1,744,899
Cost of sales		(1,475,769)	(1,478,038)
Gross profit		326,064	266,861
Other income		68,427	30,763
Other expenses		(3,169)	(1,317)
Selling and distribution costs		(212,542)	(172,897)
Administrative expenses		(70,564)	(58,536)
Profit before tax	4	108,216	64,874
Income tax expense	5	(14,856)	(9,839)
Profit for the period		93,360	55,035
Attributable to:			
Equity holders of the Company		92,692	55,398
Minority interests		668	(363)
		93,360	55,035
Dividend	6	74,466	49,645
Basic earnings per share	7	RMB0.0373	RMB0.0223

CONDENSED CONSOLIDATED BALANCE SHEET

At 30 June 2008

	Notes	30.6.2008 RMB'000 (Unaudited)	31.12.2007 RMB'000 (Audited)
Non-current assets			
Property, plant and equipment	8	2,457,478	2,658,626
Prepaid lease payments		41,423	42,018
Investment properties	8	62,263	65,350
Intangible assets		47,412	53,823
Deferred tax assets	14	8,302	8,093
Long term other receivable	10	22,841	—
		<u>2,639,719</u>	<u>2,827,910</u>
Current assets			
Inventories		660,140	653,277
Trade and other receivables	9	375,039	325,235
Bills receivables	11	747,126	905,934
Prepaid lease payments		1,189	1,189
Bank deposits with original maturity more than three months	12	2,170,235	2,013,431
Bank balances and cash		<u>1,882,712</u>	<u>1,581,450</u>
		<u>5,836,441</u>	<u>5,480,516</u>
Current liabilities			
Trade, bills and other payables	13	1,323,441	1,166,564
Dividend payable		547	—
Tax payable		<u>13,315</u>	<u>21,353</u>
		<u>1,337,303</u>	<u>1,187,917</u>
NET CURRENT ASSETS		<u>4,499,138</u>	<u>4,292,599</u>
TOTAL ASSETS LESS CURRENT LIABILITIES		<u>7,138,857</u>	<u>7,120,509</u>
Capital and reserves			
Share capital		2,482,268	2,482,268
Reserves		<u>4,363,586</u>	<u>4,345,359</u>
Equity attributable to equity holders of the Company		6,845,854	6,827,627
Minority interests		<u>293,003</u>	<u>292,882</u>
Total equity		<u>7,138,857</u>	<u>7,120,509</u>

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 June 2008

	Attributable to equity holders of the Company								Total RMB'000
	Share capital RMB'000	Share premium RMB'000	Capital reserve RMB'000	Statutory surplus reserve fund RMB'000	Discretionary surplus reserve fund RMB'000	Retained profits RMB'000	Total RMB'000	Minority interests RMB'000	
At 1 January 2007 (audited)	2,482,268	1,764,905	572,239	715,941	1,837	1,180,846	6,718,036	219,455	6,937,491
Profit for the period, representing total income for the period	—	—	—	—	—	55,398	55,398	(363)	55,035
2006 final dividend paid	—	—	—	—	—	(49,645)	(49,645)	—	(49,645)
At 30 June 2007 (unaudited)	<u>2,482,268</u>	<u>1,764,905</u>	<u>572,239</u>	<u>715,941</u>	<u>1,837</u>	<u>1,186,599</u>	<u>6,723,789</u>	<u>219,092</u>	<u>6,942,881</u>
At 1 January 2008 (audited)	2,482,268	1,764,905	572,239	730,911	2,289	1,275,015	6,827,627	292,882	7,120,509
Profit for the period, representing total income for the period	—	—	—	—	—	92,692	92,692	668	93,360
Dividend made by a subsidiary to minority shareholder	—	—	—	—	—	—	—	(547)	(547)
Unclaimed H shares dividend of prior year	—	—	—	—	—	1	1	—	1
2007 final dividend paid	—	—	—	—	—	(74,466)	(74,466)	—	(74,466)
At 30 June 2008 (unaudited)	<u>2,482,268</u>	<u>1,764,905</u>	<u>572,239</u>	<u>730,911</u>	<u>2,289</u>	<u>1,293,242</u>	<u>6,845,854</u>	<u>293,003</u>	<u>7,138,857</u>

CONDENSED CONSOLIDATED CASH FLOW STATEMENT

For the six months ended 30 June 2008

	1.1.2008 to 30.6.2008 <i>RMB'000</i> <i>(Unaudited)</i>	1.1.2007 to 30.6.2007 <i>RMB'000</i> <i>(Unaudited)</i>
Net cash from operating activities	<u>507,757</u>	<u>581,700</u>
Net cash used in investing activities:		
Increase in fixed deposits with banks	(156,804)	(518,853)
Purchase of property, plant and equipment	(6,131)	(3,316)
Interest received	30,901	18,938
Proceeds from disposal of property, plant and equipment	<u>4</u>	<u>2</u>
	<u>(132,030)</u>	<u>(503,229)</u>
Net cash used in financing activities:		
Dividend paid	<u>(74,465)</u>	<u>(49,645)</u>
	<u>(74,465)</u>	<u>(49,645)</u>
Net increase in cash and cash equivalents	301,262	28,826
Cash and cash equivalents at 1 January	<u>1,581,450</u>	<u>1,814,530</u>
Cash and cash equivalents at 30 June	<u><u>1,882,712</u></u>	<u><u>1,843,356</u></u>

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2008

1. BASIS OF PREPARATION

The condensed consolidated financial statements have been prepared in accordance with the applicable disclosure requirements of Appendix 16 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the Listing Rules) and with Hong Kong Accounting Standard 34 (HKAS34) “Interim financial reporting”, issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”).

2. PRINCIPAL ACCOUNTING POLICIES

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

The accounting policies used in the condensed consolidated financial statements are consistent with those followed in the preparation of the Group’s annual financial statements for the year ended 31 December 2007.

In the current interim period, the Group has applied the applicable interpretations (“new Interpretations”) issued by HKICPA, which are effective for the Group’s financial year beginning 1 January 2008.

HK (IFRIC) — Int 11	HKFRS 2: Group and Treasury Share Transactions
HK (IFRIC) — Int 12	Service Concession Arrangements
HK (IFRIC) — Int 14	HKAS 19 — The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction

The adoption of these new Interpretations had no material effect on the results or financial position of the Group for the current or prior accounting periods. Accordingly, no prior period adjustment has been recognised.

The Group has not early applied the following new standards or interpretations that have been issued but not yet effective.

HKAS 1 (Revised)	Presentation of Financial Statements ¹
HKAS 23 (Revised)	Borrowing Costs ¹
HKAS 27 (Revised)	Consolidated and Separate Financial Statements ²
HKAS 32&1 (Amendments)	Puttable Financial Instruments and Obligations Arising on Liquidation ¹
HKFRS 2 (Amendment)	Vesting Conditions and Cancellations ¹
HKFRS 3 (Revised)	Business Combinations ²
HKFRS 8	Operating Segments ¹
HK (IFRIC)-Int 13	Customer Loyalty Programmes ³
HK (IFRIC)-Int 15	Agreements for the Construction of Real Estate ¹
HK (IFRIC)-Int 16	Hedges of a Net Investment in a Foreign Operation ⁴

¹ Effective for annual periods beginning on or after 1 January 2009

² Effective for annual periods beginning on or after 1 July 2009

³ Effective for annual periods beginning on or after 1 July 2008

⁴ Effective for annual periods beginning on or after 1 October 2008

The adoption of HKFRS 3 (Revised) may affect the accounting for business combination for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after 1 July 2009. HKAS 27 (revised) will affect the accounting treatment for changes in a parent's ownership interest in a subsidiary that do not result in a loss of control, which will be accounted for as equity transactions. The directors of the Company have commenced considering the potential impact of HKFRS 8, but it is not yet in a position to determine whether HKFRS 8 would have a significant impact on the presentation of segment information.

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

3. BUSINESS INFORMATION

For management purposes, the Group is currently engaged in the manufacture and sales of six series of products — light-duty trucks, multi-purposes vehicles, pick-up trucks, heavy-duty trucks, other vehicles and automobile parts and accessories.

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
Heavy-duty trucks	— manufacture and sales of heavy-duty trucks
Other vehicles	— manufacture and sales of vehicles other than those identified as above
Automobile parts and accessories	— manufacture and sales of automobile parts and accessories

- (i) Segment information about these businesses for the period ended 30 June 2008 is presented below:

	Light-duty trucks <i>RMB'000</i>	Multi- purposes vehicles <i>RMB'000</i>	Pick-up trucks <i>RMB'000</i>	Heavy- duty trucks <i>RMB'000</i>	Other vehicles <i>RMB'000</i>	Automobile parts and accessories <i>RMB'000</i>	Consolidated <i>RMB'000</i>
Turnover	<u>908,939</u>	<u>6,541</u>	<u>585,672</u>	<u>193,400</u>	<u>67</u>	<u>107,214</u>	<u>1,801,833</u>
Result							
Segment result	<u>75,045</u>	<u>2,890</u>	<u>4,073</u>	<u>4,465</u>	<u>65</u>	<u>(4,905)</u>	81,633
Unallocated corporate expenses							(24,451)
Unallocated interest income							<u>51,034</u>
Profit before tax							108,216
Income tax expense							<u>(14,856)</u>
Profit for the period							<u>93,360</u>

- (ii) Segment information about these businesses for the period ended 30 June 2007 is presented below:

	Light-duty trucks <i>RMB'000</i>	Multi- purposes vehicles <i>RMB'000</i>	Pick-up trucks <i>RMB'000</i>	Heavy- duty trucks <i>RMB'000</i>	Other vehicles <i>RMB'000</i>	Automobile parts and accessories <i>RMB'000</i>	Consolidated <i>RMB'000</i>
Turnover	<u>1,023,391</u>	<u>39,733</u>	<u>486,907</u>	<u>135,813</u>	<u>607</u>	<u>58,448</u>	<u>1,744,899</u>
Result							
Segment result	<u>71,859</u>	<u>(16,369)</u>	<u>29,088</u>	<u>(28,679)</u>	<u>(358)</u>	<u>3,396</u>	58,937
Unallocated corporate expenses							(19,317)
Unallocated interest income							<u>25,254</u>
Profit before tax							64,874
Income tax expense							<u>(9,839)</u>
Profit for the period							<u>55,035</u>

All of the production facilities of the Group are located in the People's Republic of China ("PRC") and substantially all of the sales of the Group are also made in the PRC. The Group has made limited export sales to countries outside PRC which accounted for 3.42% of the Group's turnover for the period (six months ended 30 June 2007: 3.38%).

4. PROFIT BEFORE TAX

	1.1.2008 to 30.6.2008 RMB'000	1.1.2007 to 30.6.2007 RMB'000
Profit before tax has been arrived at after charging:		
Allowance for obsolete inventories	1,393	7,086
Amortisation of intangible assets (included in cost of sales)	6,411	6,695
Amortisation of prepaid lease payments	595	595
Depreciation of investment properties	3,087	—
Depreciation of property, plant and equipment	141,939	191,145
Loss on disposal of property, plant and equipment	76	8
Net foreign exchange loss	3,093	1,309
and after crediting:		
Interest income from bank deposits and balances	51,034	25,254
Rental income from renting properties and equipments	17,369	2,917

5. INCOME TAX EXPENSE

	1.1.2008 to 30.6.2008 RMB'000	1.1.2007 to 30.6.2007 RMB'000
Current tax	16,533	9,839
Over provision of current tax in prior year	(1,468)	—
Deferred tax credit (<i>Note 14</i>)	(209)	—
	14,856	9,839

The Company and its subsidiaries are subject to PRC Enterprise Income Tax, and according to 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 engaged in the business encouraged by the State Government are entitled to PRC Enterprise Income Tax at the rate of 15% effective from 1 January 2001. Besides, a subsidiary of the Company, 重慶慶鈴模具有限公司 “Qingling Moulds”, was qualified as an enterprise with advanced technology to entitle to a preferential tax rate of 10% for three years of 2005, 2006 and 2007.

On 16 March 2007, PRC promulgated the Law of the People’s Republic of China on Enterprise Income Tax (the “New Law”) by Order No. 63 of the President of the People’s Republic of China. On 6 December 2007, the State Council of the PRC issued Implementation Regulations of the New Law. The New Law and Implementation Regulations will change the tax rate from 33% to 25% for certain subsidiaries from 1 January 2008. According to the Implementation of Transitional Preferential Policies for Enterprise Income Tax by Guo Fa [2007] No.39, the Group can continue to be entitled to the Enterprise Income Tax rate of 15% for the subsidiaries located in the western zone. According to the New Law, Qingling Moulds is re-applying to qualify as an enterprise with advanced technology. The Enterprise Income Tax rate of Qingling Moulds will be 15% due to the fact that it is located in western zone, and the re-application result will have no influence on the tax rate of 15%.

The charge for the period can be reconciled to the profit before tax per condensed consolidated income statement as follows:

	1.1.2008 to 30.6.2008 RMB’000	1.1.2007 to 30.6.2007 RMB’000
Profit before tax	<u>108,216</u>	<u>64,874</u>
Tax at the applicable tax rate of 15% (2007: 15%)	16,232	9,731
Tax effect of expense that not deductible for tax purpose	96	153
Tax effect of income not taxable for tax purpose	(4)	(167)
Effect of 10% (2007: 10%) income tax rate granted to a subsidiary	—	122
Over provision in prior year	<u>(1,468)</u>	<u>—</u>
Income tax expense for the period	<u>14,856</u>	<u>9,839</u>

6. DIVIDEND

In June 2008, a 2007 dividend of RMB0.03 per share (2006 dividend: RMB0.02 per share) amounting to RMB74,466,000 (2006 dividend: RMB49,645,000) was paid to shareholders as the final dividend for 2007.

The directors have resolved not to declare an interim dividend for the six months ended 30 June 2008 (six months ended 30 June 2007: nil).

7. EARNINGS PER SHARE

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

Earnings

	Six months ended	
	30.6.2008 RMB'000	30.6.2007 RMB'000
Earnings for the purpose of basic earnings per share (profit for the period attributable to equity holders of the Company)	92,692	55,398

Number of shares

	30.6.2008 '000	30.6.2007 '000
Number of shares for the purpose of basic earnings per share	2,482,268	2,482,268

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

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

During the period, the Group incurred approximately RMB6,131,000 (six months ended 30 June 2007: RMB3,316,000) on additions to property, plant and equipment and disposed of property, plant and equipment with carry amount of approximately RMB65,340,000 (six months ended 30 June 2007: RMB9,000).

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

9. TRADE AND OTHER RECEIVABLES

At the balance sheet date, the balance of trade and other receivables includes amounts due from 慶鈴汽車(集團)有限公司 (“Qingling Group” — ultimate holding company of the Group), subsidiaries of Qingling Group, and 慶鈴五十鈴(重慶)發動機有限公司 (“Qingling Isuzu Engine” — joint controlled entity of the Group) as follows:

	30.6.2008 RMB'000	31.12.2007 RMB'000
Subsidiaries of Qingling Group	7,267	8,684
Qingling Group	42,018	—
Qingling Isuzu Engine	132,989	194,953
	<u>182,274</u>	<u>203,637</u>

Receivables from subsidiaries of Qingling Group are trade in nature and aged within 3 months.

Receivables from Qingling Group and Qingling Isuzu Engine are non-trade in nature, interest-free and recoverable within 12 months from the balance sheet date.

As at balance sheet date, the aged analysis of trade receivables, net of allowances, of the Group is as follows:

	30.6.2008 RMB'000	31.12.2007 RMB'000
Within 3 months	49,103	80,865
Between 3 to 6 months	2,133	17
Between 7 to 12 months	368	15
Between 1 to 2 years	8	5
Over 2 years	901	1,200
	<u>52,513</u>	<u>82,102</u>
Other receivable	229,333	233,742
Advance to suppliers	93,193	9,391
	<u>375,039</u>	<u>325,235</u>

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

An accumulated allowance has been made for estimated irrecoverable amount from sales of goods amounting to RMB4,595,000 at both balance sheet dates.

10. LONG-TERM OTHER RECEIVABLE

During the period, the Group sold property, plant and equipment with a carrying amount of RMB65,261,000 to Qingling Group for RMB65,261,000 (see Note 15). The sales proceeds of RMB22,841,000 are due for settlement more than one year after the balance sheet date and hence the corresponding amount is classified as non-current, and the remaining balance is classified as current and included in trade and other receivables.

The entire amount due from Qingling Group is unsecured and interest-free.

11. BILLS RECEIVABLES

At the balance sheet date, the aged analysis of bills receivables of the Group is as follows:

	30.6.2008 <i>RMB'000</i>	31.12.2007 <i>RMB'000</i>
Within 1 month	192,938	279,783
Between 1 to 2 months	132,191	162,932
Between 2 to 3 months	140,381	137,712
Between 4 to 6 months	281,616	325,507
	<u>747,126</u>	<u>905,934</u>

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

12. BANK DEPOSITS WITH ORIGINAL MATURITY MORE THAN THREE MONTHS

The fixed deposits with banks are with term 6 to 12 months and their respective interest rates are ranging from 3.33% to 4.14% (2007: 2.25% to 3.06%) per annum.

13. TRADE, BILLS AND OTHER PAYABLES

- (a) At the balance sheet date, the balance of trade, bills and other payables included the amounts due to Qingling Group, subsidiaries of Qingling Group and Isuzu Motors Limited (“Isuzu” — the substantial shareholder of the Company) and its wholly-owned subsidiary, Isuzu (China) Holding Co., Ltd. (hereinafter collectively referred to as “Isuzu Group”) as follows:

	30.6.2008 RMB'000	31.12.2007 RMB'000
Qingling Group	539	1,529
Subsidiaries of Qingling Group	31,428	36,728
Isuzu Group	57,306	62,791
	<u>89,273</u>	<u>101,048</u>

These amounts are in trade nature, unsecured and are repayable in accordance with average credit period on purchases of materials is 3 to 6 months.

Trade, bills and other payables principally comprise amounts outstanding for trade purchases and ongoing costs.

- (b) At the balance sheet date, the aged analysis of trade and bills payables of the Group is as follows:

	30.6.2008 RMB'000	31.12.2007 RMB'000
Within 3 months	832,324	687,817
Between 3 to 6 months	29,398	121,322
Between 7 to 12 months	2,233	8
Over 12 months	902	518
	<u>864,857</u>	<u>809,665</u>
Other payables	249,634	213,953
Advance from customers	208,950	142,946
	<u>1,323,441</u>	<u>1,166,564</u>

14. DEFERRED TAX ASSETS

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

	Allowance for inventories <i>RMB'000</i>
At 1 January 2008	8,093
Credit to consolidated income statement for the period	<u>209</u>
At 30 June 2008	<u><u>8,302</u></u>

15. RELATED PARTY TRANSACTIONS AND BALANCES

Apart from the amounts due from and to related companies as disclosed in notes 9 and 13, during the period, the Group entered into the following transactions with related parties:

(1) Transactions with Qingling Group and its subsidiaries

(a) Qingling Group, the ultimate holding company of the Company

Type of transactions	1.1.2008 to 30.6.2008 <i>RMB'000</i>	1.1.2007 to 30.6.2007 <i>RMB'000</i>
Purchases of automobile parts	23,177	21,258
Sales of property, plant and equipment	65,261	—
Sales of parts and raw materials for the manufacture of automobile parts	13,436	11,850
Income from renting of moulds and machinery	1,546	2,917
Expenses for renting warehouse	1,535	2,915
Service fee expense	150	150
Service fee income	<u>77</u>	<u>—</u>

(b) 重慶慶鈴鑄造有限公司, the subsidiary of Qingling Group

	1.1.2008	1.1.2007
	to	to
Type of transactions	30.6.2008	30.6.2007
	RMB'000	RMB'000
Purchases of automobile parts	7,034	34,511
Sales of parts and raw materials for the manufacture of automobile parts	6,156	4,433
Service fee income	30	—

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

	1.1.2008	1.1.2007
	to	to
Type of transactions	30.6.2008	30.6.2007
	RMB'000	RMB'000
Purchases of automobile parts	17,414	25,217
Sales of parts and raw materials for the manufacture of automobile parts	625	550

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

	1.1.2008	1.1.2007
	to	to
Type of transactions	30.6.2008	30.6.2007
	RMB'000	RMB'000
Purchases of automobile parts	115,861	110,294
Sales of parts and raw materials for the manufacture of automobile parts	27,029	20,483

(e) 重慶慶鈴日發座椅有限公司, the subsidiary of Qingling Group

	1.1.2008	1.1.2007
	to	to
Type of transactions	30.6.2008	30.6.2007
	RMB'000	RMB'000
Purchases of automobile parts	14,749	10,964
Sales of parts and raw materials for the manufacture of automobile parts	3,153	3,565

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

	1.1.2008	1.1.2007
	to	to
Type of transactions	30.6.2008	30.6.2007
	RMB'000	RMB'000
Purchases of automobile parts	21,969	19,567
Sales of parts and raw materials for the manufacture of automobile parts	6,722	6,063

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

	1.1.2008	1.1.2007
	to	to
Type of transactions	30.6.2008	30.6.2007
	RMB'000	RMB'000
Purchases of automobile parts	5,054	5,271
Sales of parts and raw materials for the manufacture of automobile parts	527	382

(2) **Transactions with Isuzu Group**

Isuzu owns 496,453,654 H-shares representing 20% of the entire issued share capital of the Company and so there is a significant influence to the Company.

	1.1.2008	1.1.2007
	to	to
Type of transactions	30.6.2008	30.6.2007
	RMB'000	RMB'000
Royalties on sale of trucks and other vehicles	13,357	11,505
Sales of accessory sets and other automobile parts and components	61,601	47,790
Purchase of parts and components	301,308	288,063

(3) Transactions with Qingling Isuzu Engine, a joint control entity of the Group

	1.1.2008 to 30.6.2008 RMB'000	1.1.2007 to 30.6.2007 RMB'000
Type of transactions		
Purchases of automobile parts	408,680	—
Sales of accessory sets and raw materials	301,265	—
Income for renting properties and equipments	31,194	—
Service fee income	2,144	—

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

(4) Transactions/balances with other state-controlled entities in the PRC

The Group operates in an economic environment currently predominated by entities directly or indirectly owned or controlled by the PRC government ("state-controlled entities"). In addition, the Group itself is part of a larger group of companies under Qingling Group which is controlled by the PRC government. Apart from the transactions with Qingling Group and its subsidiaries disclosed in section (1) above, the Group also conducts businesses with other state-controlled entities. The directors consider those state-controlled entities are independent third parties so far as the Group's business transactions with them are concerned.

Material transactions/balances with other state-controlled entities are as follow:

	1.1.2008 to 30.6.2008 RMB'000	1.1.2007 to 30.6.2007 RMB'000
Trade sales	655,365	706,522
Trade purchases	236,662	175,385
	30.6.2008 RMB'000	31.12.2007 RMB'000
Trade balances due from other state-controlled entities	274,021	179,931
Trade balances due to other state-controlled entities	240,182	181,766

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

Except as disclosed above, the directors are of the opinion that transactions with other state-controlled entities are not significant to the Group's operations.

(5) Compensation of directors and key management personnel

The short term benefits paid or payable by the Group to directors of the Company and other members of key management personnel during the six months ended 30 June 2008 is approximately RMB964,000 (six months ended 30 June 2007: RMB578,000).

16. COMMITMENTS

- (a) At the balance sheet date, the Group had the following capital commitments:

	30.6.2008 RMB'000	31.12.2007 RMB'000
Contracted for but not provided in the condensed consolidation financial statements in respect of purchase of tangible and intangible assets	<u>15,918</u>	<u>2,733</u>

- (b) The Company has agreed to contribute US\$42,130,000 (approximately RMB288,974,000) to Qingling Isuzu Engine, according to agreement and article. At balance sheet date, the Company has made its initial capital injection of US\$16,852,000 (approximately RMB115,590,000) to Qingling Isuzu Engine and has not yet contributed the remaining amount of US\$25,278,000 (approximately RMB173,384,000) at 30 June 2008.
- (c) On 28 December 2007, the Company and Isuzu entered into an agreement to establish Qingling Isuzu (Chongqing) Automobile Sales and Service Co., Ltd. (慶鈴五十鈴(重慶)汽車銷售服務有限公司) ("Qingling Isuzu Automobile") to engage in the sales of vehicles and their parts manufactured by the Group, development of after-sales service and supply of parts for maintenance. Pursuant to the agreement, the Company will contribute US\$2,300,000, approximately RMB15,776,000 (2007: RMB16,801,000), for taking up 50% share capital of Qingling Isuzu Automobile. The establishment of Qingling Isuzu Automobile is in progress and is subject to the approval of the relevant authorities of the PRC government.

2008 HALF-YEARLY RESULTS

For the first half of the year ended 30 June 2008, the Company sold 16,532 vehicles, representing an increase of 7.37% over the corresponding period of the previous year. Sales revenue amounted to RMB1,802 million, representing an increase of 3.26% over the corresponding period of the previous year. Profit for the period was RMB93.36 million, representing a year-on-year growth of 69.64%.

REVIEW OF OPERATION

During the first half of the year, the Company concentrated itself on various works in preparation for introducing new products to the market, while continuing to foster its marketing capabilities with its competitive edge in terms of performance to price ratio of its products, with a view to achieving sales growth. Our enterprise overcame the adverse effects of natural disasters such as snowstorms and earthquakes, and were able to record sustainable growth in our results of operations.

1. Be committed to the work in preparation for introducing new products to the market. Firstly, the Company completed the preparation work relating to production, quality assurance and marketing of 700P high-end medium-sized commercial vehicles, Isuzu's latest global strategic automobile model, for the bulk sales to the market. Such model of vehicle was successfully introduced to the market on 8 July to satisfy the demand for high-end medium-sized commercial vehicles in the PRC. Secondly, the Company completed the trial production and assessment of China III diesel pick-up trucks, and obtained the relevant announcement catalogue, and this served as a new technical competitive edge for the pick-up trucks.
2. Continue to foster and enhance the Company's marketing capabilities to support the sales growth. Firstly, the Company newly established 15 dealers in various provinces, cities and economic centers across the country. Secondly, the Company newly established thirteen 4S dealers, and as a result more than 50% of the dealers are performing the 4S functions. Thirdly, the Company strengthened after-sales services, which resulted in 1.9 times growth in the sales of spare parts over the corresponding period of last year.
3. Make substantial increase in the performance to price ratio of its existing products to achieve sales growth. At the beginning of the year, with its success in persistently lowering the production costs in recent years, the Company reduced the price of pick-up trucks by approximately 20%. This has substantially increased the performance to price ratio of our pick-up trucks, and helped enlarge our market share for this product and achieve a rapid growth in its sales. In the first half of this year, the Company sold 7,373 pick-up trucks, representing an increase of 51.49% over the same period of the previous year.
4. Make persistent efforts in lowering the costs and further enhance the cost competitiveness of our products. Firstly, the Company actively promoted cost reduction activities and continued to enhance the localization rate for certain existing products. Secondly, by leveraging on its strong capital position, the Company adjusted the sales settlement policy against certain accessories manufacturers in order to control and reduce the purchasing costs. Thirdly, the Company implemented the new economic accountability system, optimized its products portfolio with emphasis on higher value-added products, and motivated its staff to enhance efficiency for cost reduction.

OUTLOOK

To grasp the golden market opportunities arising from the full implementation of China III emission regulations in the PRC automobile market commencing on 1 July and the better regulated operations for commercial vehicles, the Company will leverage on the competitive edge of Qingling products, i.e. high performance to price ratio contributing by sophisticated technology and moderate costs, to support its operations in entering a new development stage.

1. The Company will focus on the two major aspects of marketing efforts to achieve rapid sales growth. Firstly, with the favorable impact of the full implementation of China III emission regulations, the Company will commit itself to promoting the competitive edge of high performance to price ratio featured by its existing products such as 600P, F vehicles and TF pick-up trucks, which will result in rapid increase in the Company's market share. Secondly, the Company will promote the sales growth on the basis of its fundamental work including pre-sales and promotions, staff training, direct customer development with respect to the newly launched 700P product.
2. The Company will strengthen the development of its marketing and after-sales services network to enhance its marketing capabilities. To meet the demand for quality, quantity and time, the Company will place a strong emphasis on strengthening of "marketing network development", "4S dealership promotion" and "supply of spare parts", so as to further improve the quality of marketing and after-sales services network with a view to establishing a multi-regional marketing network, and this will help the Company implement its strategies of enlarging its high-end market and entering into the medium-end market.
3. The Company will actively be engaged in "Production Quality Improvement Activities" with high efficiency. The Company will formulate measures and remedies efficiently to tackle the problems associated with staff, equipment, materials, regulations and environment in the production process. The Company will also establish various sound management systems in order to achieve stable production of high quality products with high efficiency and low costs. Meanwhile, the Company will integrate its planning, purchasing, production and delivery, so as to increase its market sales.

The Company firmly believes that it will speed up its pace to capitalize on the various well-established resources edge, strengthen its development in the market, and deliver outstanding operating results for our investors.

FINANCIAL RESOURCES AND LIQUID FUNDS SITUATION

Shareholders' interest as at 30 June 2008 increased by 0.26% compared with that as at 31 December 2007. This increase was mainly due to the aggregate profit attributable to shareholders for the year amounted to approximately RMB92,692,000 and the payment of 2007 dividend approximately RMB74,466,000.

There were no borrowings of the Group as at 30 June 2008. The Group's current assets were mainly Bank balances and cash, Bank deposits with original maturity more than three months, Inventories like raw materials and finished goods, Bills receivables and Trade and other receivables, Prepaid lease payments which amounted to approximately RMB5,836,441,000, whereas current liabilities amounted to approximately RMB1,337,303,000. As at 30 June 2008, Bank balances and cash, Bank deposits with original maturity more than three months amounted to approximately RMB4,052,947,000.

As at 30 June 2008, no assets had been pledged by the Group as security and the gearing ratio of the Group was 15.78%, 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 cancellation of the preferential treatment of tax refund provided by the local governments will not have material impact on the Group as it has not enjoyed the preferential treatment of income tax refund provided by the local governments. On 16 March 2007, PRC promulgated the Law of the People's Republic of China on Enterprise Income Tax (the "New Law") by Order No. 63 of the President of the People's Republic of China. On 6 December 2007, the State Council of the PRC issued Implementation Regulations of the New Law. The New Law and Implementation Regulations will change the tax rate from 33% to 25% for certain subsidiaries from 1 January 2008. According to the Implementation of Transitional Preferential Policies for Enterprise Income Tax by Guo Fa (2007) No. 39, the Group can continue to entitle the Enterprise Income Tax rate of 15% for the subsidiaries located in the western zone. According to the New Law, Qingling Moulds is re-applying to qualify as an enterprise with advance technology. The Enterprise Income Tax rate of Qingling Moulds will be 15% due to the fact that it is located in western zone, and the reapplication result will have no influence on the tax rate of 15%.

DESIGNATED DEPOSITS

As at 30 June 2008, the Group did not have any designated deposits or any time deposits that were overdue but could not be collected upon maturity.

EMPLOYEES

As at 30 June 2008, the Group has 3,020 employees (six months ended 30 June 2007: 3,070 employees). For the six months ended 30 June 2008, labour cost was RMB51,107,000 (six months ended 30 June 2007: RMB35,879,000). The Group actively provides various training programme to its staff of all levels.

SALES AND STAFF QUARTERS

For the six months ended 30 June 2008, the Group did not sell any staff quarters to its employees.

STRUCTURE OF SHAREHOLDING

- (1) As at 30 June 2008, 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 2008, 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 (“SFO”) were as follows:

Long positions in the shares of the Company:

Name of shareholders	Class of shares	Number of shares	Capacity	Percentage of the relevant of share capital	Percentage of entire share capital
Qingling Motors (Group) Company Limited	Domestic shares	1,243,616,403 shares	Beneficial Owner	100.00%	50.10%
Isuzu Motors Limited	Foreign shares (H shares)	496,453,654 shares	Beneficial Owner	40.08%	20.00%

Save as disclosed above, the register required to be kept under section 336 of 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 2008.

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

At 30 June 2008, none of the directors, supervisors and chief executive of the Company has any interests or short positions in the shares, underlying shares or debentures of the Company or its associated corporations as defined under the SFO as recorded in the register required to be kept under Section 352 of the SFO or as otherwise notified to the Company and The Stock Exchange of Hong Kong Limited ("Stock Exchange") pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers ("Model Code"). For the six months ended 30 June 2008, none of directors, supervisors and chief executives of the Company, their spouse or children under 18 had any rights to subscribe for equity or debt securities of the Company, nor has any of them exercised such rights.

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

There were no purchase, sale, redemption or cancellation of the Company's listed securities by the Company and its subsidiaries during the six months ended 30 June 2008.

CODE ON CORPORATE GOVERNANCE PRACTICES

The Company endeavours to maintain a high standard of corporate governance and to increase transparency to its shareholders. The Company has adopted sound governance and disclosure practices, and is committed to continuously improve those practices and cultivate an ethical corporate structure.

Except for the deviation specified below, the Company has complied with the code provisions of the Code on Corporate Governance Practices (the "Code") as set out in Appendix 14 of the Listing Rules during the six months ended 30 June 2008.

Code Provision E.1.2 of the Code stipulates that the Chairman of the Board of the Company should attend annual general meetings. Owing to an important commitment overseas, the Chairman of the Board of the Company, Mr. WU Yun, has given an apology for not presiding the 2008 annual general meeting. Hence, he has signed an appointing letter, appointing Mr. LIU Guangming, an executive director to attend the 2008 annual general meeting. The Chairman of the Board of the Company, Mr. WU Yun, should attend the annual general meeting of the Company unless any exceptional circumstances occur.

ORDINARY HONG KONG RESIDENT AS AN INDEPENDENT NON-EXECUTIVE DIRECTOR

According to the regulations promulgated by the Stock Exchange, any PRC-based company listed in Hong Kong shall engage one Hong Kong resident to act as an independent non-executive director. However, as at the date of this announcement, the Company has not identified a suitable candidate.

QUALIFIED ACCOUNTANT

According to the regulations promulgated by the Stock Exchange, any company listed in Hong Kong shall engage a qualified accountant for the financial management of the company. The Company is currently using its best endeavour in identifying a suitable candidate. However, as at the date of this announcement, the Company has not identified a suitable candidate.

MODE CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS AND SUPERVISORS

The Company has adopted the Model Code set out in Appendix 10 of the Listing Rules as the code of conduct regarding securities transactions by the directors and supervisors. Having made specific enquiry of all directors and supervisors, the Company confirmed all directors and supervisors have complied with the required standard set out in the Model Code during the six months ended 30 June 2008.

INDEPENDENT REVIEW

The interim results for the six months ended 30 June 2008 are unaudited, but have been reviewed by Deloitte Touche Tohmatsu, the Company's auditor, in accordance with Hong Kong Standard on Review Engagements 2410 "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the Hong Kong Institute of Certified Public Accountants. The interim results have also been reviewed by the Company's audit committee.

PUBLICATION OF FINANCIAL INFORMATION

The Company's 2008 interim report containing all the financial information required by the Listing Rules will be dispatched to shareholders published on the designated websites of Hong Kong Exchanges and Clearing Limited (www.hkexnews.hk) and the website of the Company (www.qingling.com.cn) in due course.

DIRECTORS

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

Executive Directors:

Mr. WU Yun

Mr. GAO Jianmin

Mr. Makoto TANAKA

Mr. Naotoshi TSUTSUMI

Mr. LIU Guangming

Mr. PAN Yong

Mr. YUE Huaqiang

Non-Executive Directors:

Mr. Long Tao

Mr. SONG Xiaojiang

Mr. XU Bingjin

By Order of the Board

WU Nianqing

Company Secretary

Chongqing, the PRC, 22 August 2008