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 with limited liability)

(Stock Code: 1122)

Announcement of Interim Results 2017

The board of directors (the "**Board**") of Qingling Motors Co. Ltd (the "**Company**") is pleased to announce the unaudited condensed consolidated interim results of the Company and its subsidiaries (together the "**Group**") for the six months ended 30 June 2017, together with comparative figures for the corresponding period in 2016, as follows:

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the six months ended 30 June 2017

		Six months ended 30 June	
		2017	2016
		RMB'000	RMB'000
	NOTES	***(unaudited)***	*(unaudited)*
Revenue	3	**2,444,316**	2,422,595
Cost of sales		**(1,933,774)**	(1,939,204)
Gross profit		**510,542**	483,391
Other income		**106,989**	73,436
Other gains and losses, net		**(1,171)**	2,204
Distribution and selling expenses		**(159,670)**	(116,593)
Administrative expenses		**(109,995)**	(109,817)
Research expenses		**(32,569)**	(17,420)
Share of profit of an associate		**145**	145
Share of results of joint ventures		**10,122**	6,581
Profit before tax	4	**324,393**	321,927
Income tax expense	5	**(47,880)**	(47,515)
Profit and total comprehensive income for the period		**276,513**	274,412
Profit and total comprehensive income for the period attributable to:			
Owners of the Company		**276,186**	274,216
Non-controlling interests		**327**	196
		276,513	274,412
Earnings per share			
Basic	7	**RMB0.11**	RMB0.11

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 30 June 2017

	NOTES	**At 30 June 2017** **RMB'000** **(unaudited)**	At 31 December 2016 RMB'000 (audited)
Non-current assets			
Property, plant and equipment	8	**722,303**	732,984
Prepaid lease payments		**38,751**	39,443
Investment properties		**31,924**	32,932
Intangible assets		**228,544**	241,762
Interest in an associate		**7,197**	7,052
Interests in joint ventures		**493,469**	480,170
Deferred tax assets		**12,162**	27,672
		1,534,350	1,562,015
Current assets			
Inventories		**659,241**	587,156
Trade and other receivables and prepayments	9	**600,923**	898,980
Bills receivable	10	**1,701,989**	1,582,547
Prepaid lease payments		**1,383**	1,383
Bank deposits with original maturity more than three months	11	**876,150**	3,050,884
Restricted bank balances	12	**79,999**	79,999
Bank deposits, bank balances and cash	12	**4,745,714**	2,434,886
		8,665,399	8,635,835
Current liabilities			
Trade, bills and other payables	13	**2,351,744**	2,229,961
Tax liabilities		**10,440**	8,000
		2,362,184	2,237,961
Net current assets		**6,303,215**	6,397,874
Total assets less current liabilities		**7,837,565**	7,959,889
Capital and reserves			
Share capital		**2,482,268**	2,482,268
Share premium and reserves		**5,055,295**	5,176,272
Equity attributable to owners of the Company		**7,537,563**	7,658,540
Non-controlling interests		**300,002**	301,349
Total equity		**7,837,565**	7,959,889

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 June 2017

	Attributable to owners of the Company								
	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*	**Non-controlling interests** *RMB'000*	**Total equity** *RMB'000*
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	**2,482,268**	**1,764,905**	**572,239**	**1,049,035**	**2,347**	**1,666,769**	**7,537,563**	**300,002**	**7,837,565**
For the six months ended 30 June 2016 (unaudited)									
At 1 January 2016 (audited)	2,482,268	1,764,905	572,239	1,001,084	2,347	1,751,573	7,574,416	298,372	7,872,788
Profit and total comprehensive income for the period	—	—	—	—	—	274,216	274,216	196	274,412
2015 final dividend declared (Note 6)	—	—	—	—	—	(397,163)	(397,163)	—	(397,163)
Dividend declared by a subsidiary to a non-controlling shareholder	—	—	—	—	—	—	—	(1,787)	(1,787)
At 30 June 2016	2,482,268	1,764,905	572,239	1,001,084	2,347	1,628,626	7,451,469	296,781	7,748,250

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

For the six months ended 30 June 2017

	Six months ended 30 June	
	2017	2016
	RMB'000	*RMB'000*
	(unaudited)	*(unaudited)*
NET CASH FROM OPERATING ACTIVITIES	**475,609**	339,634
INVESTING ACTIVITIES		
Acquisition of property, plant and equipment	**(21,956)**	(7,490)
Acquisition of intangible assets	**—**	(130,010)
Withdrawal of bank deposits with original maturity more than three months	**2,475,396**	1,543,500
Placement of bank deposits with original maturity more than three months	**(310,349)**	(2,508,500)
Interest received	**91,087**	63,443
Proceeds from disposal of property, plant and equipment	**7**	447
NET CASH FROM (USED IN) INVESTING ACTIVITIES	**2,234,185**	(1,038,610)
FINANCING ACTIVITIES		
Dividends paid	**(397,163)**	—
Dividends paid to a non-controlling shareholder of a subsidiary	**(1,674)**	—
CASH USED IN FINANCING ACTIVITIES	**(398,837)**	—
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	**2,310,957**	(698,976)
CASH AND CASH EQUIVALENTS AT 1 JANUARY	**2,434,886**	2,182,750
Effect of exchange rate changes on the balance of cash held in foreign currencies	**(129)**	3,178
CASH AND CASH EQUIVALENTS AT 30 JUNE, represented by bank deposits, bank balances and cash	**4,745,714**	1,486,952

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2017

1. BASIS OF PREPARATION OF THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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, except for certain financial instruments that are measured at fair values at the end of the reporting period.

Except as described below, the accounting policies and methods of computation used in the condensed consolidated financial statements for the six months ended 30 June 2017 are the same as those followed in the preparation of the annual financial statements of Qingling Motors Co., Ltd (the "Company") and its subsidiaries (collectively referred to as the "Group") for the year ended 31 December 2016.

In the current interim period, the Group has applied, for the first time, the following amendments to Hong Kong Financial Reporting Standards ("HKFRSs") issued by the HKICPA that are relevant for the preparation of the Group's condensed consolidated financial statements:

Amendments to HKAS 7	Disclosure Initiative
Amendments to HKAS 12	Recognition of Deferred Tax Assets for Unrealised Losses
Amendments to HKFRS 12	As part of the Annual Improvements to HKFRSs 2014–2016 Cycle

The application of the above amendments to HKFRSs in the current interim period has had no material effect on the amounts reported in these condensed consolidated financial statements and/or disclosures set out in these condensed consolidated financial statements, but the application may have impact on disclosures in the consolidated financial statements for the year ending 31 December 2017.

3. SEGMENT INFORMATION

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

(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 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	**1,348,729**	**841**	**622,231**	**415,570**	**56,945**	**2,444,316**
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**

3. SEGMENT INFORMATION — cont'd

(i) Segment revenue and results — cont'd

Six months ended 30 June 2016

	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	1,166,569	2,624	687,019	491,459	74,924	2,422,595
Result						
Segment profit	133,994	122	82,473	34,805	4,748	256,142
Central administration costs						(16,581)
Interest income						50,876
Other income						22,560
Other gains and losses, net						2,204
Share of profit of an associate						145
Share of results of joint ventures						6,581
Group's profit before tax						321,927

There have been no inter-segment sales during the six months ended 30 June 2017 (2016: Nil).

The accounting policies of the operating segments are the same as those followed in the preparation of the annual financial statements of the Group for the year ended 31 December 2016.

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 and share of results of joint ventures. This is the measure reported to the chief operating decision makers for the purposes of resources allocation and performance assessment.

3. SEGMENT INFORMATION — cont'd

(ii) Segment assets and liabilities

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

As at 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)
Assets						
Segment assets	**1,451,682**	**3,572**	**691,133**	**973,604**	**184,122**	**3,304,114**
Interchangeably used assets between segments						
— property, plant and equipment						**175,994**
— prepaid lease payments						**40,134**
— inventories						**292,189**
Investment properties						**31,924**
Interest in an associate						**7,197**
Interests in joint ventures						**493,469**
Restricted bank balances, bank deposits and bank balances						**5,701,863**
Other unallocated assets						**152,866**
Consolidated total assets						**10,199,749**
Liabilities						
Segment liabilities	**295,412**	**207**	**136,285**	**91,022**	**—**	**522,926**
Unallocated trade, bills and other payables						**1,828,818**
Other unallocated liabilities						**10,440**
Consolidated total liabilities						**2,362,184**

3. SEGMENT INFORMATION — cont'd

(ii) Segment assets and liabilities — cont'd

As at 31 December 2016

	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	1,334,347	317,471	355,018	1,013,186	607,390	3,627,412
Interchangeably used assets between segments						
— property, plant and equipment						173,496
— prepaid lease payments						40,826
— inventories						122,981
Investment properties						32,932
Interest in an associate						7,052
Interests in joint ventures						480,170
Restricted bank balances, bank deposits and bank balances						5,565,769
Other unallocated assets						147,212
Consolidated total assets						10,197,850
Liabilities						
Segment liabilities	354,782	733	171,479	115,603	—	642,597
Unallocated trade, bills and other payables						1,587,364
Other unallocated liabilities						8,000
Consolidated total liabilities						2,237,961

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.

4. PROFIT BEFORE TAX

	Six months ended 30 June	
	2017	2016
	RMB'000	*RMB'000*
	(unaudited)	(unaudited)
Profit before tax has been arrived at after charging (crediting):		
Salaries and other payments and benefits	**110,821**	101,712
Retirement benefits scheme contributions	**12,556**	13,174
Total staff costs	**123,377**	114,886
Loss (gain) on disposal of property, plant and equipment, net	**51**	(117)
Amortisation of intangible assets (included in cost of sales)	**13,218**	12,061
Depreciation of property, plant and equipment	**24,097**	34,821
Depreciation of investment properties	**1,008**	814
Release of prepaid lease payments	**692**	854
Minimum lease payments under operating lease in respect of rented premises and production facilities	**18,694**	17,279
Write-down of inventories	**7,295**	—
Net foreign exchange losses (gains)	**1,120**	(2,050)
Cost of inventories recognised as cost of sales	**1,926,479**	1,939,204
Interest income from bank deposits and balances	**(81,400)**	(50,876)
Income from renting investment properties	**(3,316)**	(3,086)
Less: Direct operating expenses from investment properties that generated rental income during the period	**1,407**	1,331
	(1,909)	(1,755)
Income from renting of moulds and tooling equipment	**(19,799)**	(18,769)

5. INCOME TAX EXPENSE

	Six months ended 30 June	
	2017	2016
	RMB'000	*RMB'000*
	(unaudited)	(unaudited)
Current tax	**32,370**	47,515
Deferred tax	**15,510**	—
Total income tax expense charged for the period	**47,880**	47,515

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 2017, 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 2016: (unaudited) 25%) for the six months ended 30 June 2017.

6. DIVIDEND

During the current interim period, a final dividend of RMB0.16 per share in respect of the year ended 31 December 2016 (six months ended 30 June 2016: (unaudited) RMB0.16 per share in respect of the year ended 31 December 2015) 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 2016: (unaudited) RMB397,163,000).

The directors of the Company have resolved not to declare an interim dividend for the six months ended 30 June 2017 (six months ended 30 June 2016: (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	
	2017	2016
	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)	**276,186**	274,216

	Six months ended 30 June	
	2017	2016
	'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 for both periods.

8. PROPERTY, PLANT AND EQUIPMENT

During the current period, the Group acquired property, plant and equipment of approximately RMB13,474,000 (six months ended 30 June 2016: (unaudited) RMB9,324,000).

9. TRADE AND OTHER RECEIVABLES AND PREPAYMENTS

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

	At 30 June 2017 *RMB'000* **(unaudited)**	At 31 December 2016 *RMB'000* (audited)
Trade receivables, less allowance for doubtful debts	**517,447**	842,324
Other receivables	**16,662**	12,473
Prepayments	**66,814**	44,183
	600,923	898,980

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

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

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 2017 *RMB'000* **(unaudited)**	At 31 December 2016 *RMB'000* (audited)
Within 3 months	**463,661**	604,910
Between 3 to 6 months	**13,661**	209,001
Between 7 to 12 months	**24,639**	18,205
Between 1 to 2 years	**13,872**	9,761
Over 2 years	**1,614**	447
	517,447	842,324

An accumulated allowance has been made for estimated irrecoverable amount from sales of goods amounting to RMB963,000 as at 30 June 2017 (31 December 2016: (audited) RMB2,594,000).

10. BILLS RECEIVABLE

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

	At 30 June 2017	At 31 December 2016
	RMB'000	*RMB'000*
	(unaudited)	(audited)
Within 1 month	**455,308**	434,349
Between 1 to 2 months	**279,326**	295,117
Between 2 to 3 months	**248,662**	202,930
Between 3 to 6 months	**718,693**	650,151
	1,701,989	1,582,547

All the above bills receivable are guaranteed by banks and their maturity dates are within 6 months.

11. BANK DEPOSITS WITH ORIGINAL MATURITY MORE THAN THREE MONTHS

The fixed bank deposits are with a term of 3 to 24 months (31 December 2016: (audited) from 3 to 24 months) and carried interest rates ranging from 0.80% to 3.72% (31 December 2016: (audited) from 1.55% to 3.60%) per annum. Included in these fixed bank deposits are deposits with a carrying amount of approximately RMB794,879,000 (31 December 2016: (audited) RMB786,882,000) which have embedded derivatives relating to future gold prices. In the opinion of directors of the Company, these embedded derivatives are not closely related to the economic risks and characteristics of the fixed bank deposits contracts and have immaterial fair value.

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

Bank deposits, bank balances and cash

Bank deposits and bank balances carry interest at market rates which range from 1.065% to 4.35% (31 December 2016(audited): from 1.150% to 3.30%) per annum. Included in these bank deposits and bank balances are bank deposits with original maturity within three months with a carrying amount of approximately RMB1,557,916,000 (31 December 2016: (audited) RMB962,175,000) which have embedded derivatives relating to future gold prices. In the opinion of directors of the Company, these embedded derivatives are not closely related to the economic risks and characteristics of the fixed bank deposits contracts and have immaterial fair value.

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 14(a).

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 2017	At 31 December 2016
	RMB'000	*RMB'000*
	(unaudited)	(audited)
Trade and bills payables	**1,729,877**	1,361,835
Advance from customers	**203,553**	399,157
Selling expenses payables	**233,015**	239,964
Other payables	**177,658**	196,456
Value added tax payables	**7,641**	32,549
	2,351,744	2,229,961

13. TRADE, BILLS AND OTHER PAYABLES — cont'd

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

	At 30 June 2017	At 31 December 2016
	RMB'000	*RMB'000*
	(unaudited)	(audited)
Within 3 months	**1,649,443**	1,210,083
Between 3 to 6 months	**72,230**	144,729
Between 7 to 12 months	**2,529**	635
Over 1 year	**5,675**	6,388
	1,729,877	1,361,835

14. MATERIAL LITIGATIONS

As at 30 June 2017, the Company has involved in two material legal proceedings as follows:

(a) 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 on 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. 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 was RMB80 million in aggregate.

14. MATERIAL LITIGATIONS — cont'd

(a) (CON'T)

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 February 2017, the Shenzhen Court organised the defendants and Bank A for exchange of evidence which has yet to be completed and the 2015 Litigation has not yet been formally heard up to the approval date of the condensed consolidated financial statements.

The Company reviewed all the relevant documents and agreements in relation to the 2015 Litigation and based on the opinion of its PRC legal adviser, the directors of the Company are of the view that the alleged liability in the litigation document lacks of factual and legal evidence and therefore the Company shall not be liable. Accordingly, no provision for the frozen bank balances has been made in the condensed consolidated financial statements.

(b) On 29 August 2016, the Board received a notice of payment from a bank ("Bank B") to the Company dated 23 August 2016, demanding, pursuant to the provisions of a tripartite cooperation agreement (the "Agreement") entered into among the Company, Bank B and a distributor of the Company (the "Distributor"), the Company to be liable for the repayment of an outstanding bank loan of the Distributor falling due as at 23 August 2016 in the amount of approximately RMB14,370,000.

The terms of the Agreement stated that Bank B agreed to grant the Distributor a loan facility of RMB75,000,000 and the Company should pay for the shortfall payment as requested by the notice of payment from Bank B when the guarantee deposited by the Distributor was insufficient.

Subsequently on 26 October 2016, the Company formally received a summon and a notice of respondence to action issued by 廈門市中級人民法院 (transliterated as Intermediate People's Court of Xiamen) (the "Xiamen Court") dated 19 October 2016 and a civil complaint from Bank B dated 7 September 2016 in relation to Bank B, as a plaintiff, having initiated legal proceedings (the "2016 Litigation") against six defendants including the Distributor and the Company in the Xiamen Court.

In the 2016 Litigation, Bank B sued the Distributor for being unable to pay the deposit in full in accordance with the provisions of the Agreement which constituted an event of default of the Agreement. Bank B requested an immediate repayment of the advances, borrowings and any interests up to the date of actual repayment from the Distributor which amounted to approximately RMB19,680,000 in total up to 6 September 2016. Bank B further sued the Company for not complying with the provisions of the Agreement that it was liable for repaying the shortfall payment, which constituted a breach of the Agreement, and the Company shall have joint liability for the payment and the settlement.

14. MATERIAL LITIGATIONS — cont'd

(b) (CON'T)

Later, on 11 November 2016, the Board received the second notice of payment from Bank B to the Company dated 7 November 2016, demanding the Company to be liable for the repayment of the outstanding bank loan of the Distributor falling due as at 7 November 2016, together with that under the first notice of payment, in an aggregate amount of approximately RMB39,330,000, and, in January 2017, the Board further received the third notice of payment from Bank B to the Company dated 11 January 2017, demanding the Company to be liable for the repayment of the outstanding bank loan of the Distributor falling due as at 11 January 2017, together with those under the first and second notice of payment, in an aggregate amount of approximately RMB48,300,000.

Since the Company has never entered into the Agreement, on 29 September 2016, the Company reported the aforesaid incident to 重慶市公安局九龍坡分局 (transliterated as Jiulongpo branch of Chongqing Municipal Public Security Bureau). Jiulongpo branch of Chongqing Municipal Public Security Bureau has initiated formal investigation.

In November 2016, an application of objection to the jurisdiction has been filed by the Company to the Xiamen Court but was overruled by the Xiamen Court. In December 2016, the Company filed another application of objection to the jurisdiction to 福建省高級人民法院 (transliterated as Fujian Higher People's Court), but such application was overruled by the Fujian Higher People's Court in May 2017, which held that the 2016 Litigation remains to be heard by the Xiamen Court.

In July 2017, the Company received a civil complaint from the Xiamen Branch of Bank B after altering the litigation claim requesting the Company to be jointly liable for the repayment of borrowings of the Distributor and accrued interest thereon amounting to approximately RMB54,018,000.

In July and August 2017, the Xiamen Court heard the 2016 Litigation and examined the evidence, and has still been in the course of being provided with supplemental evidence. Therefore the 2016 Litigation has not yet been decided up to the approval date of the condensed consolidated financial statements.

The Board has reviewed all the relevant documents and contracts in relation to the 2016 Litigation and after making verifications, the Board finds that the Distributor engraved the seals of the Company and the legal person without explicit approval, and entered into the Agreement with Bank B. Based on the opinion of its PRC legal adviser, the directors of the Company are of the view that the Company is not legally bound by the Agreement because it did not sign the Agreement, and therefore the Company should not be liable. Accordingly, no provision has been made in respect of the claims under the 2016 Litigation in the condensed consolidated financial statements.

2017 FIRST HALF-YEARLY RESULTS

As at 30 June 2017, the Group sold 25,505 vehicles, representing an increase of 0.33% over the corresponding period of the previous year. Sales revenue amounted to RMB2.44 billion, representing an increase of 0.90% over the corresponding period of the previous year. Profit after tax was RMB277 million, representing a year-on-year increase of 0.77%.

MANAGEMENT DISCUSSION AND ANALYSIS

REVIEW OF OPERATION

During the first half of the year, the growth of the domestic macro-economy continued to stabilize amid favourable development since the second half of last year. With the insignificant growth rate of GDP, the continuing moderate growth of Consumer Price Index and the steady rebound of Manufacturing Purchasing Managers' Index, our macro-economy kept growing under favourable trend. The domestic sales turnover of commodity trucks for the first half of the year amounted to 2.10 million units, representing an increase of 17.4% over the corresponding period. Facing the macroeconomic environment where we produced and operated, our Company had implemented tasks that were deployed at the beginning of the year, which won initial success in all aspects.

1. **Improved the marketing ability of enterprise and enhanced the overall operation situation.** Firstly, ensured a smooth transition of National IV to National V, and achieved sale volume goal of National V products; secondly, systematically planned the launching of new product, GIGA to market as well as strived to attain a sizeable sales volume at the initial stage; lastly, focused on the initial circulation of VC61 and the strengthening after-sales support.

2. **Strengthened product development with rapid introduction of new products, creating conditions of "turning risk into opportunity to outperform the competitors" for National VI period.** Firstly, speedily completed the development project "1+5", which would show effect during the period and achieved mass production; secondly, accelerated the planning progress for projects on medium-term products and promptly captured opportunities arising from National VI; lastly, emphasized marketing consciousness, consolidated the management of fundamentals and improved the market satisfaction.

3. **Emphasized marketing consciousness, consolidated the management of fundamentals and improved the market satisfaction.** Firstly, kept tracked on the rigid delivery time of our products; secondly, dedicated to enhance product quality through quality inspection, rectification and assessment; lastly, built up information technology to improve our management efficiency.

OUTLOOK

It is expected that in the second half of the year, the external environment remains grim given the ever severer competition. The Company will firmly promote reform and innovation and conscientiously implement its key tasks. Accordingly, the Company will continue putting high emphasis on the following six aspects:

1. To optimize the execution capability of the team. By making use the existing resources efficiently and effectively, to promptly and quickly delegate work and duties to specific departments and entity in charge. Adhering clear division of labor and teamwork spirit, staff are encouraged to collaborate with each other and to make progress together, creating synergistic effect to facilitate each task under centered effort while complying with orders and restrictions.

2. To improve marketing competitiveness. Firstly, to improve our marketing-based management capacity through information technology; secondly, to endeavour to facilitate the work of marketing, with an aim to create wider and greater benefits through market research, product marketing and marketing strategy; thirdly, to put efforts on solving the imbalance between "regional" and "commercial" marketing capacity; lastly, to accelerate the construction of marketing and service system of heavy vehicles.

3. To enhance the competitiveness of products. Adopting market demand oriented approach and complying with laws and regulations, to proactively develop and launch more products situation to the market; to place emphasis on stable quality of our new product and improve product quality; to conduct precise cost estimate, ensuring a cost control during the whole process.

4. To continue to deepen its key reform and innovation projects. To procure technical innovation and cultivation of innovative personnel, to facilitate reform of performance-based salary system and to accelerate the development of New Energy Vehicles and Modified Vehicles industry.

5. To strengthen the supervision and management of risk, enhance executive ability and avoid operational risk. To establish "Mass Supervision" working system, legal review and risk alarm mechanism, to upgrade the internal control mechanism and to strengthen the implementation of inspection.

6. To adhere work safety as the top priority, to seriously fulfill responsibilities as an entity of safety production and to facilitate safe production; to strengthen ideological education guidance of employees, ensuring stable workforce; to procure the work progress on environmental protection such as waste gas treatment, targeting at safe constructions and meeting standards.

The Company will keep focus on the established "13th Five-year" development strategy and our medium-term products plan, and through implementation of its business plans, to strive to achieve our annual production and development goals.

FINANCIAL REVIEW

Financial Performance

For the six months ended 30 June 2017, the revenue of the Group was RMB2,444,316,000, representing an increase of 0.90% as compared to the corresponding period last year due to the expansion of the scale of commodity cars businesses.

Gross profit for the period was RMB510,542,000, representing an increase of 5.62% as compared to the corresponding period last year. Gross profit margin of the Group for the period was 20.89%, approximating to 19.95% for the corresponding period last year. Profit of the Group for the period attributable to owners of the Company was RMB276,186,000, representing an increase of 0.72% as compared to the corresponding period last year.

For the six months ended 30 June 2017, other income mainly included bank interest income and rental income, totaling RMB106,989,000, representing an increase of 45.69% as compared to the corresponding period last year. Both bank interest income and rental income for the period increased.

For the six months ended 30 June 2017, the total distribution and selling expenses of the Group mainly including transportation costs, maintenance fees and other market promotion expenses, were RMB159,670,000, representing an increase of 36.95% as compared to the corresponding period last year, mainly due to the increase in sales causing the increase in business promotion expenses for the period as compared to the corresponding period last year.

For the six months ended 30 June 2017, the total administrative expenses of the Group mainly including staff's salaries and allowance, insurance premium, maintenance fees and other administrative expenses, were RMB109,995,000, which is comparable with RMB109,817,000 of the corresponding period last year.

For the six months ended 30 June 2017, the share of results of an associate and joint ventures to the Group was RMB10,267,000, representing an increase of 52.65% 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 2017, basic earnings per share was RMB0.11 which is comparable with that of the corresponding period last year. The Company did not issue any new shares during the period.

Financial Position

As at 30 June 2017, the total assets and total liabilities of the Group were RMB10,199,749,000 and RMB2,362,184,000 respectively.

The non-current assets were RMB1,534,350,000, mainly including property, plant and equipment, interests in joint ventures and intangible assets.

The total current assets amounted to RMB8,665,399,000, mainly including RMB659,241,000 of inventories, RMB600,923,000 of trade and other receivables and prepayments, RMB1,701,989,000 of bills receivables, RMB876,150,000 of bank deposits with original maturity more than three months and RMB4,825,713,000 of bank deposits and bank balances (including restricted bank balances of RMB79,999,000) and cash.

The total current liabilities amounted to RMB2,362,184,000, mainly including RMB2,351,744,000 of total trade, bills and other payables and RMB10,440,000 of tax payable.

Net current assets fell from RMB6,397,874,000 as at 31 December 2016 to RMB6,303,215,000 as at 30 June 2017, representing a decrease of 1.48%.

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 2017 was 30.14% (as at 31 December 2016: 28.12%).

Issued share capital as at 30 June 2017 maintained at RMB2,482,268,000 and no share was issued during this period of six months.

For the six months ended 30 June 2017, 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 2017 was RMB7,537,563,000. 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 2017 was RMB3.04.

Significant Investment

As at 30 June 2017, the Group's interests in joint ventures were RMB493,469,000 and interest in an associate was RMB7,197,000 which mainly included the interest in Qingling Isuzu Engine, a joint venture, of RMB433,520,000. For the six months ended 30 June 2017, 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 2017 from the corresponding period last year that was mainly attributable to increase in market demand.

During the period ended 30 June 2017, there were no significant acquisition and disposal of the Group.

Segment Information

The revenue contributed by light-duty trucks and pick-up trucks were RMB1,348,729,000 and RMB622,231,000 respectively, representing 80.63% of the total revenue and 87.03% 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 RMB415,570,000, representing 17.00% of the total revenue. The profit from operation attributable to them was RMB28,839,000, accounting for 11.17% of the segment profit.

Pledge of Assets

During the period ended 30 June 2017, no asset of the Group was pledged for financial facilities (during the period ended 30 June 2016: Nil).

Effects of Foreign Exchange Rate Changes

As at 30 June 2017, the Group had bank balances of foreign currency including Hong Kong dollars of RMB3,742,000 and foreign currency payables and other payables of RMB102,198,000.

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 2017, the Group had capital commitments of RMB63,445,000 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 did not recommend to declare an interim dividend for the six months ended 30 June 2017 (for the period ended 30 June 2016: nil).

Purchase, Redemption and Sale of the Company's Listed Securities

During the six months ended 30 June 2017, 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 2017, the Group had 2,871 employees. For the six months ended 30 June 2017, labour cost was RMB123,377,000. 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 2017, the Group has not sold any staff quarters to its employees.

STRUCTURE OF SHAREHOLDING

(1) As at 30 June 2017, 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 2017, 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 share capital of relevant class	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 2017.

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

As at 30 June 2017, 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 2017, 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 2017, 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 2017.

EVENTS AFTER THE LATEST ANNUAL REPORT

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

INDEPENDENT REVIEW

The interim results for the six months ended 30 June 2017 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.

PUBLICATION OF FINANCIAL INFORMATION

The Company's 2017 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.

DIRECTORS

As at the date of this announcement, the Board comprises 10 directors, of which Mr. LUO Yuguang, Mr. Keiichiro MAEGAKI, Mr. Masanori OTA, Mr. Etsuo YAMAMOTO, Mr. LI Juxing and Mr. XU Song are executive directors and Mr. LONG Tao, Mr. SONG Xiaojiang, Mr. LIU Tianni and Mr. LIU Erh Fei are independent non-executive directors.

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

Chongqing, the PRC, 25 August 2017