



# Jiangling Motors Corporation, Ltd.

## 2012 Half-year Report

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**Important Note:** The Board of Directors and its members, the Supervisory Board and its members, and the senior executives are jointly and severally liable for the truthfulness, accuracy and completeness of the information disclosed in the report and confirm that the information disclosed herein does not contain false statements, misrepresentations or major omissions.

Chairman Wang Xigao, President Yuan-Ching Chen, CFO Dennis Leu and Chief of Finance Department, Ding Ni, confirm that the Financial Statements in this Half-year Report are truthful and complete.

The Half-year Financial Statements have not been audited.

All financial data in this report are prepared under International Financial Reporting Standards ('IFRS') unless otherwise specified.

The Half-year Report is prepared in Chinese and English. In the event of any discrepancy, the Chinese version will prevail.

## Section I JMC's Basic Information

### I. Brief Introduction

**Company name in Chinese:** 江铃汽车股份有限公司

**Company name in English:** Jiangling Motors Corporation, Ltd.

**Abbreviation:** JMC

**Place of listing:** Shenzhen Stock Exchange

**Share's name:** Jiangling Motors            Jiangling B

**Share's code:**    000550                            200550

**JMC's registered address and head office's address:** 509, Northern Yingbin Avenue, Nanchang City, Jiangxi Province, P.R.C.

**Postcode:** 330001

**Internet web site:** <http://www.jmc.com.cn>

**Legal representative of JMC:** Mr. Wang Xigao

**Board Secretary:** Mr. Wan Hong

**Board securities affair representative:** Mr. Quan Shi

**Contact address:** Jiangling Motors Corporation, Ltd., 509, Northern Yingbin Avenue, Nanchang City, Jiangxi Province, P.R.C.

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**Persons for financial information disclosure:** Mr. Dennis Leu

(Tel: 0791-85266503)

**Newspapers for information disclosure:** China Securities, Securities Times, Hong Kong Commercial Daily

**Website designated by CSRC for publication of JMC's Half-year Report:**  
<http://www.cninfo.com.cn>

**Place for placing Half-year Report:** Securities Department, Jiangling Motors Corporation, Ltd.

### **Other Information:**

1. JMC was registered with Nanchang Municipal Bureau of Industrial & Commercial Administration on November 28, 1993. The company registration was changed with Jiangxi Provincial Bureau of Industrial & Commercial Administration on January 8, 1997, on September 20, 1999, on November 25, 2003, on September 23, 2004, on June 21, 2007 and on April 30, 2008.

2. Business License Registration Number: 360000511000021.

3. Taxation Registration Number:

(State Administration of Taxation) 360108612446943

(Nanchang Local Taxation) 360104612446943

## II. Operating Highlights

Unit: RMB '000

	At the end of reporting period*	At the end of the previous year	Change (%)
Total assets	12,655,682	11,819,855	7.07
Shareholder's equity Attributable to the Equity Holders of the Company	7,408,302	7,311,768	1.32
Share Capital	863,214	863,214	0
Net Assets Per Share Attributable to the Equity Holders of the Company (RMB)	8.58	8.47	1.32
Liabilities/Assets (%)	40.43	37.16	Up 3.27 percentage points
	Reporting period (2012 first half)*	Same period last year*	Change (%)
Revenue	8,721,529	9,221,540	-5.42
Operating Profit	956,217	1,203,417	-20.54
Profit Before Income Tax	1,074,783	1,286,509	-16.46
Profit Attributable to the Equity Holders of the Company	838,898	1,075,018	-21.96
Basic Earnings Per Share (RMB)	0.97	1.25	-21.96
Diluted Earnings Per Share (RMB)	0.97	1.25	-21.96
Fully Diluted Return on Net Asset Ratio (%)	11.32	16.49	Down 5.17 percentage points
Weighted Average Return on Net Asset Ratio (%)	10.85	16.13	Down 5.28 percentage points
Net Cash Generated From Operating Activities	972,431	149,377	550.99
Net Cash Flow Per Share from Operating Activities (RMB)	1.13	0.17	550.99

\*Unaudited financial indexes.

Impact of IFRS adjustments on the profit for the period:

Unit: RMB'000

	Shareholder's equity Attributable to the Equity Holders of the Company	Profit Attributable to the Equity Holders of the Company
	June 30, 2012	2012 First Half
As Prepared under the China GAAP**	7,410,732	841,328
Adjustment per IFRS:		
Staff bonus and welfare fund appropriated from net profit of a subsidiary	-2,430	-2,430
As Restated in Conformity with IFRS	7,408,302	838,898

\*\* Based on the financial statements prepared by JMC under the China GAAP.

## Section II Share Capital Changes and Main Shareholders

### I. Table of the changes of shareholding structure

	Before the change		Change (+, -)					After the change	
	Shares	Proportion of total shares (%)	New shares	Bonus Shares	Reserve-converted shares	Others	Subtotal	Shares	Proportion of total shares (%)
I. Limited tradable A shares	2,781,930	0.32%	-	-	-	-30	-30	2,781,900	0.32%
1.State-owned shares	-	-	-	-	-	-	-	-	-
2. State-owned legal person shares	-	-	-	-	-	-	-	-	-
3. Other domestic shares	2,781,000	0.32%	-	-	-	-	-	2,781,000	0.32%
Including:									
Domestic legal person shares	2,781,000	0.32	-	-	-	-	-	2,781,000	0.32%
Domestic natural person shares	0	-	-	-	-	-	-	0	-
4. Management Shares	930	-	-	-	-	-30	-30	900	-
II. Unlimited tradable shares	860,432,070	99.68%				30	30	860,432,100	99.68%
1. A shares	516,432,070	59.83%	-	-	-	30	30	516,432,100	59.83%
2. B shares	344,000,000	39.85%	-	-	-	-	-	344,000,000	39.85%
III. Total	863,214,000	100%	-	-	-	-	-	863,214,000	100%

### II. Total shareholders, top ten shareholders, and top ten shareholders holding unlimited tradable shares

Total shareholders	JMC had 21,311 shareholders, including 15,144 A-share holders and 6,167 B-share holders, as of June 30, 2012.				
Top ten shareholders					
Shareholder Name	Shareholder Type	Shareholding Percentage (%)	Shares	Shares with Trading Restriction	Shares Due to Mortgage or Frozen
Jiangling Motor Holding Co., Ltd. (“JMH”)	State-owned legal person	41.03	354,176,000	-	-
Ford Motor Company (‘Ford’)	Foreign legal person	30	258,964,200	-	-
Huaan Tactical Select Securities Investment Fund	Domestic non-state-owned legal person	2.31	19,919,249	-	-
Shanghai Automotive Co., Ltd.	State-owned legal person	1.51	13,019,610	-	-
National Social Security Fund- Portfolio 102	Domestic non-state-owned legal person	1.30	11,234,091	-	-
Bosera Thematic Sector Equity Securities Investment Fund	Domestic non-state-owned legal person	1.10	9,500,000	-	-
Dragon Billion China Master Fund	Foreign legal person	1.04	8,969,196	-	-
Rongtong New Blue-chip	Domestic non	0.82	7,082,010	-	-

Securities Investment Fund	-state-owned legal person				
Jpmblsa Re Ftif Templeton China Fund Gti 5497	Foreign legal person	0.58	5,035,263	-	-
Invesco Funds Sicav	Foreign legal person	0.54	4,698,109	-	-
Top ten shareholders holding unlimited tradable shares					
Shareholder Name		Shares without Trading Restriction		Share Type	
Jiangling Motor Holding Co., Ltd.		354,176,000		A share	
Ford Motor Company		258,964,200		B share	
Huaan Tactical Select Securities Investment Fund		19,919,249		A share	
Shanghai Automotive Co., Ltd.		13,019,610		A share	
National Social Security Fund- Portfolio 102		11,234,091		A share	
Bosera Thematic Sector Equity Securities Investment Fund		9,500,000		A share	
Dragon Billion China Master Fund		8,969,196		B share	
Rongtong New Blue-chip Securities Investment Fund		7,082,010		A share	
Jpmblsa Re Ftif Templeton China Fund Gti 5497		5,035,263		B share	
Invesco Funds Sicav		4,698,109		B share	
Notes on association among above-mentioned shareholders		Bosera Thematic Sector Equity Securities Investment Fund and National Social Security Fund- Portfolio 102 are in custody of Bosera Fund Management Co., Ltd.			

### III. Controlling Shareholders

The controlling shareholders of JMC are Jiangling Motor Holding Co., Ltd. ('JMh') and Ford Motor Company ('Ford').

JMH was founded on November 1, 2004 and its registered capital is RMB 2 billion. Jiangling Motors Company (Group) ('JMCG') and Chongqing Changan Automobile Co., Ltd. held 50% of total equity of JMH respectively. And its legal representative is Mr. Xu Liuping. Main scope of business: manufacturing of automobiles, engines, chassis, and automotive components and parts, sales of self-produced products, as well as related after-sales services; industrial investment; management & agent for merchandise and technology export & import; property management; sales of household articles, mechanical & electronic equipment, artistic handicrafts, agricultural by-products and steel; consulting business in enterprise management.

Ford, founded in 1903, is a US-based listed company. Chairman: William Clay Ford, Jr. Main scope of business: design, manufacturing, assembly and sales of cars, trucks, parts and components, financing, leasing of vehicles and equipment, and insurance business.

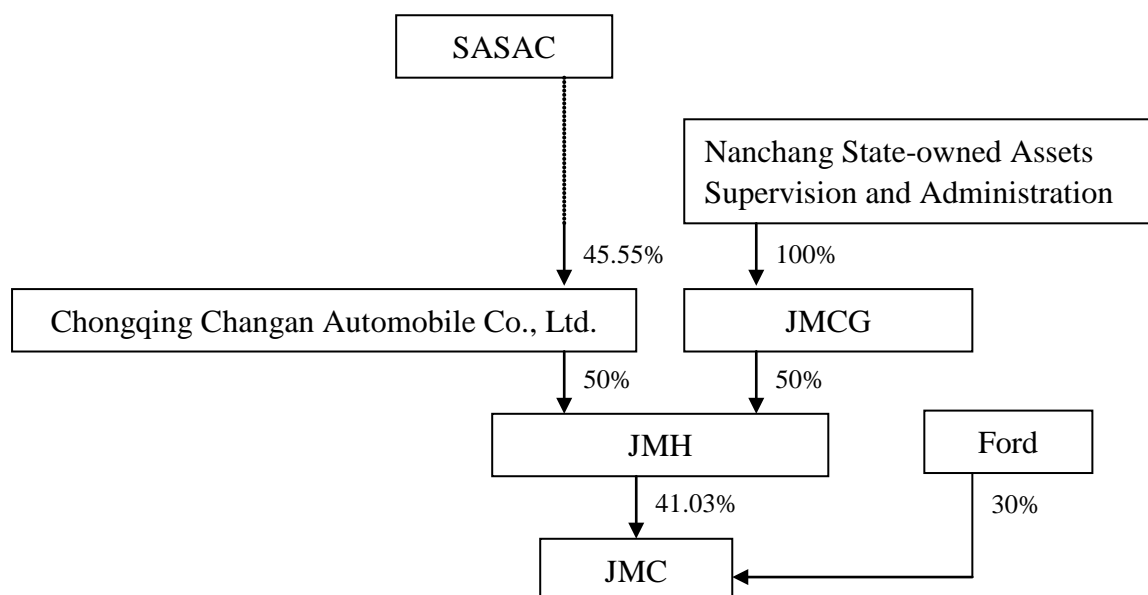
### IV. Actual Controlling Parties

The controlling shareholders of JMH are JMCG and Chongqing Changan Automobile Co., Ltd.

JMCG, founded on July 27, 1991, is a wholly state-owned enterprise with registered capital of RMB 1.5 billion and subordinate to Nanchang State-owned Assets Supervision and Administration Committee. Its legal representative is Mr. Wang Xigao. Main scope of business: manufacturing of automobiles, engines, chassis, specialty vehicle, transmission, other products, automotive quality testing, sales of self-produced products and raw materials, equipment, electronic products, parts and others, as well as related after-sales services and maintenance services; development of products derived from JMC brand light vehicle; oversea auto project-contracting, export equipment, material and related labor services.

Chongqing Changan Automobile Co., Ltd., founded on December 31, 1996, is a state-controlled enterprise with registered capital of RMB 2.33 billion and subject to the State-owned Assets Supervision and Administration Committee of the State Council ('SASAC'). Its legal representative is Mr. Xu Liuping. Main scope of business: development, manufacturing, sales, import & export business of auto (including sedan), engine, automotive components, die, tools, installation of machinery, technological consultant services.

Ownership and control relations between the Company and the actual controlling parties are shown as follows:



### Section III Directors, Supervisors and Senior Management

- I. There was no change in the status of JMC directors, supervisors and senior management holding JMC shares in the reporting period.
- II. Positions at the shareholder entities held by the JMC directors and the

supervisors:

Name	Shareholder Entity	Title	Term of Office	Compensation Paid by Shareholder Entity (Y/N)
Wang Xigao	JMH	Vice Chairman	2004.11—	N
David L. Schoch	Ford	Vice President		Y
Zhu Yi	JMH	Board member	2004.11—	N
Alvin Qing Liu	Ford	AP&A Vice President and General Counsel	2009.1—	Y

III. Particulars about positions and concurrent positions in other entities other than shareholder entities:

Name/Title in the Company	Entity	Relationship with the Company	Title
Wang Xigao/Chairman	JMCG	The Chairman of JMCG also takes the post of the Company's Chairman	Chairman
	Jiangling-Isuzu Motors Company Limited	Shareholding Subsidiary	Chairman
David L. Schoch/Vice Chairman	Ford Motor (China) Ltd.	Ford wholly-owned subsidiary	Chairman & CEO
Howard D. Welsh/Director	Ford Motor (China) Ltd.	Ford wholly-owned subsidiary	Director, Vice President & CFO
	Ford Motor Research & Engineering (Nanjing) Co., Ltd.	Ford wholly-owned subsidiary	Director
	Changan Ford Mazda Automobile Co., Ltd.	Ford holds 35% shares	Director
	Changan Ford Mazda Engine Co., Ltd.	Ford holds 25% shares	Vice Chairman
Yuan-Ching Chen/Director	Jiangling-Isuzu Motors Company Limited	Shareholding Subsidiary	Director
Xiong Chunying/Director	JMCG	The Chairman of JMCG also takes the post of the Company's Chairman	Director
	Jiangling-Isuzu Motors Company Limited	Shareholding Subsidiary	Director
	Wolff Engine (Jiangxi) Co., Ltd.	Wholly-owned subsidiary of JMCG	Director
	JMCG Jingma Motors Co., Ltd.	Shareholding subsidiary of JMCG	Director
Cai Yong /Director	Chongqing Changan Automobile Co., Ltd.	See the figure in Chapter III	Supervisor, Assistant to General Manager and Director of Joint Venture & Cooperation Management Department

Shi Jiansan/ Independent director	Shanghai Academy of Social Sciences	No relationship	Research Fellow
Vincent Pun-Fong KWAN / Independent Director	Yew Chung Education Foundation Limited and Finet Holdings Limited	No relationship	CFO Director
Wang Xu/ Independent Director	Chongqing University	No relationship	Dean of Trading and Public Administration School
Zhu Yi/Supervisor	JMCG	The Chairman of JMCG also takes the post of the Company's Chairman	Vice General Manager
Alvin Qing Liu/Supervisor	Changan Ford Mazda Automobile Co., Ltd.	Ford holds 35% shares	Director
Liu Nianfeng/EVP	JMCG	The Chairman of JMCG also takes the post of the Company's Chairman	Director
Dennis Leu /CFO	Jiangling-Isuzu Motors Company Limited	Shareholding Subsidiary	Director
Zhou Yazhuo/Vice President	Jiangling-Isuzu Motors Company Limited	Shareholding Subsidiary	Vice General Manger
Liu Shuying/Vice President	Jiangling-Isuzu Motors Company Limited	Shareholding Subsidiary	Vice General Manger

#### IV. Annual Compensation

Directors and Supervisors who did not concurrently hold other management positions in JMC were not paid by JMC. Director Wang Xigao, Supervisors Zhu Yi and Zhang Jian were paid by JMCG. Directors David L. Schoch, Howard D. Welsh and Supervisor Alvin Qing Liu were paid by Ford. Director Cai Yong was paid by Chongqing Changan Automobile Co., Ltd.

(1) In accordance with the Senior Executive Compensation & Incentive Plan of JMC approved by the Board of Directors and the Senior Executive Base Salary Plan of JMC agreed by the Compensation Committee, the compensation for the Chinese-side senior management consists of base salary, short-term incentive and long-term incentive, and the long-term incentive would be paid equally in a deferred period of three years. In the first half of 2012, the Company paid compensation before tax of approximately RMB 1,100 thousand to Director & EVP Xiong Chunying, paid EVP Liu Nianfeng approximately RMB 1,050 thousand, paid VP & Board Secretary Wan Hong approximately RMB 800 thousand, paid VP Li Qing approximately RMB 800 thousand, paid VP Zhou Yazhuo approximately RMB 800 thousand, paid VP Zhu Shuixing approximately RMB 770 thousand, paid VP Liu Shuying approximately RMB 640 thousand. Two employee-representative supervisors, Ms Xu Lanfeng and Mr. Liu Niansheng, were paid about RMB 200 thousand and RMB 240 thousand respectively. The total compensation before tax paid by JMC for the aforesaid persons was about RMB 6.40 million in the reporting period.

(2) JMC pays annual compensation for Ford-seconded senior management personnel to Ford in accordance with the revised Personnel Secondment Agreement signed



between JMC and Ford and Ford Affiliates. In the first half of 2012, JMC should pay US\$ 187.5 thousand per person to Ford for Director & President Yuan-Ching Chen, CFO Dennis Leu and VP William John Marshall, US\$ 93,750 for VP John Scholtes, and RMB 375 thousand for VP Zhong Wanli,. These payments made by JMC to Ford do not reflect the actual salaries earned by Ford-seconded senior management.

(3) Pursuant to the resolutions of JMC 2011 Annual Shareholder's Meeting, the annual compensation for the JMC Independent Directors is adjusted to RMB 100 thousand per person, and JMC bears their travel-related expenses associated with JMC's business. In the first half of 2012, the Company paid compensation before tax of approximately RMB 420 thousand per person.

#### V. Changes of Directors, Supervisors and Senior Management During the Reporting Period

##### Director Change:

Per approval of the JMC 2012 First Special Shareholders' Meeting, Mr. David L. Schoch was elected as a Director of JMC. Mr. John Lawler did not hold the post of Director of JMC.

##### Senior Management changes:

The Board of Directors agreed Mr. Peter Dowding's resignation from Vice President position due to work rotation on February 28, 2012. Per President Yuan-Ching Chen's nomination, the Board of Directors appointed Mr. John Scholtes as a Vice President of the Company. The appointment shall enter into effect as of March 1, 2012.

The Board of Directors accepted Mr. Michael Joseph Brielmaier's resignation from the position of Chief Financial Officer, member of the Executive Committee and Secretary of the Audit Committee of the Company due to work rotation on May 25, 2012. Per President Yuan-Ching Chen's nomination, the Board of Directors appointed Mr. Dennis Leu as Chief Financial Officer, member of the Executive Committee and Secretary of the Audit Committee of the Company. The appointment shall enter into effect as of June 1, 2012.

The Board of Directors accepted Mr. Jin Wenhui's resignation from the position of Vice President of the Company due to work reasons. Per President Yuan-Ching Chen's nomination, the Board of Directors appointed Mr. Liao Zanping as a Vice President of the Company. The appointment shall enter into effect as of July 1, 2012.

#### VI. Employees

As of June 30, 2012, JMC had a total of 10,454 employees, of which 7,364 were production workers, 411 sales personnel, 1,818 technical personnel, 126 finance personnel, 735 administrative staff. The employees with polytechnic school degrees or above accounted for 33% of the total. There were 1,046 persons with junior technical titles, 688 with intermediate technical titles and 145 with senior technical titles, altogether accounting for 18% of the total. There were 468 early-retired employees. JMC bore retirement benefits of 968 retired employees.

## Section IV Management Discussion and Analysis

### I. Operating Results

JMC's core business is production and sales of light commercial vehicles and related components. Its major products include JMC brand truck, pickup, SUV, and Ford brand Transit series commercial vehicles. The Company also produces engines, casting and other components.

In the First Half of 2012, JMC sales volume was 102,614 units including 35,126 JMC brand trucks, 40,586 JMC brand pickups and SUVs, and 26,902 Ford brand Transit series commercial vehicles. Total sales volume was down 3% from same period last year. Total production volume for the First Half was 104,172 units, including 35,723 JMC brand trucks, 40,779 JMC brand pickups and SUVs, and 27,670 Transits.

The Company's sales decrease is primarily explained by lower commercial vehicle industry. Compared with same period last year, JMC brand truck sales volume was decreased by 8%, Transit sales volume was decreased by 10%, while JMC brand pickup and SUV was increased by 9.5%.

In the First Half of 2012, the Company achieved a share of 3.4% of the commercial vehicle market, an increase of 0.3 percentage points (pts.) from same period last year. JMC brand trucks (including pickup) accounted for 7.9% of the light truck market, increasing by 0.8 pts from same period last year. Transit achieved 19.1% share of the light bus market, down 2.2 pts vs. the same period last year. (Data source for above analysis: China Association of Automobile Manufacturers and the Company sales records)

### II. Financial Results

The Table summarizes revenue & cost of goods sold from core business:

Unit: RMB '000

Product	Turnover	Cost in core business	Gross Margin (%)	Turnover change from the same period last year (%)	Costs in core business change from the same period last year (%)	Gross margin change from the same period last year (points)
I. Vehicles	8,000,658	6,093,748	23.8%	-5.4	-5.7	0.2
II. Components	640,981	461,975	27.9%	-3.1	-3.2	0.0
Total	8,641,639	6,555,723	24.1%	-5.3	-5.5	0.2
Involving: related party transactions	662,498	562,462	15.1%	7.1	11.3	-3.2
Pricing principle of related party transactions	Market Price					

Details pertaining to core business classified according to region:

Unit: RMB '000

Region	Turnover	Turnover change from the same period last year (%)
North-east China	434,889	-3.1
North China	854,958	-6.8
East China	4,200,378	-6.8
South China	1,297,985	-8.6
Central China	769,372	3.2
North-west China	426,431	-7.8
South-west China	657,626	5.7

Revenue in the First Half of 2012 was RMB 8,722 million, down 5% from same period last year. Under International Financial Reporting Standards, net profits were RMB 839 million, down RMB 236 million from same period last year. The lower profit was primarily explained by lower sales volume from weak commercial vehicle industry, higher marketing spending to resist intense competition, strategic pricing actions and mixes changes. Finance income during the reporting period was increased by RMB 35 million, or 44%, primarily reflecting more time deposits and favorable interest rate.

Cash flow from operations was positive RMB 972 million, reflecting primarily favorable profit and operating-related working capital changes. Cash flow from investing activities was negative RMB 664 million, reflecting primarily capital expenditure for facilities, equipment and tooling.

At the end of June 2012, Company cash and cash equivalents totaled RMB 5,693 million, an increase of RMB 308 million from the end of 2011.

Deferred income tax assets decreased about RMB 79 million, or down about 32% from the end of 2011, reflecting primarily adjustment of income tax rate from 25% to 15% due to the Company passing the reexamination of hi-tech enterprise.

Total assets were RMB 12,656 million, up 7% from RMB 11,820 million at year-end 2011. The increase primarily reflects an increase in construction in progress.

Total liabilities were RMB 5,117 million, an increase of RMB 724 million or 16% from year-end 2011, primarily reflecting increase of trade and other payables vs. the end of 2011.

Shareholder equity, including minority interest, was RMB 7,539 million at June 30, 2012, up RMB 112 million from year-end 2011. This increase was primarily explained by net profit earned in the reporting period partially offset by dividend payment accrual.

**III. Product Development, Innovation, Energy Saving and Environmental Protection**  
 In the First Half of 2012, the Company further improved its self-development and innovation capability. In May 2012, JMC test center was successfully accredited with CNAS certificate. JMC is authorized to use CNAS and iLAC-MRA signs within approved business scope and the test results are recognized by related authorities in more than 50 countries and regions. Laboratory Second Phase Stage V project is

about to be ready for official operation. JMC branded JX6470P4/JX6471P4 multi purpose passenger vehicle was awarded with the First Prize of Provincial Excellent Product by Jiangxi Provincial Industry and Information Committee in 2012.

In the First Half of 2012, the Company continued to strengthen energy saving. As a result, we completed the program of fuel oven modification in the painting workshop and we achieved 3% lower energy cost per unit compared with the same period last year. Additionally, another modification program of melting in the Casting Plant is now in progress. In order to save energy maximally, we also popularized the best practice and established an audit process for energy saving within the whole Company.

In the First Half of 2012, the Company continued to improve environmental management system. Based on the control subject to ISO14001 and internal audit rules, we executed the environmental operation system positively to ensure the Company complying with the requirements of environmental protection laws & regulations. To meet with emission standard and lower pollutant discharge, the Company arranged some special funds on the wastewater treatment station in Xiaolan and the pre-treatment station in the Engine Plant, and laid great importance on the operation of environment protection facilities. To ensure proper disposal of waste, JMC established a waste management procedure, and waste were separated. Anti-sink, anti-leakage and anti-loss processes are laid in the waste storage area. Furthermore, JMC periodically followed up the status with suppliers.

#### IV. Operational Challenges and Resolutions

In the First Half of 2012, the Company continued to face a slowdown in the commercial vehicle industry, new product entry competition, more stringent regulatory requirement and intensifying cost pressures. During the reporting period, the Company focused on quality improvement, new product development and new plant construction, which set the foundation for future growth.

With regard to competition, the Company continued to experience market share pressure from low price competitors. In response, the Company lowered price for VE83 LWB Bus. Additionally, proactive marketing plans were initiated to help generate sales. The Company also accelerated development of the dealer network in the second tier markets and enhanced its customer purchase satisfaction.

To achieve steady growth, the company continues to focus on (1) quality improvement for all products, (2) tactically accelerating marketing spending and sales promotion that improve market share, (3) reducing component costs and improving manufacturing efficiency, (4) balancing management of controllable expenses, including operating, capacity-related, and new product development spending, while ensuring that the company's long term development remains consistent with company objectives, (5) strengthening corporate governance and application of appropriate risk assessment and control mechanisms.

The company anticipates continued erratic vehicle industry growth, cost pressures and severe competition in the future, including labor cost increases, competitive vehicle price reduction, more new vehicle entries in selected market segments, government policy revisions and more stringent regulatory requirements.

The Company will continue to leverage previously established processes and work groups to reduce existing production costs and eliminate operating waste throughout the enterprise. Additionally, we are maximizing design optimization and cost reduction for new products. With the support of our technology partners, we will continue to execute major projects approved by the Board. These programs include the N351 SUV AT project, the N330 project (the next generation SUV which is developed independently), the N800 project (the next generation truck product which is developed independently), the J08 project (a SUV product introduced from Ford), the J09 project (a new generation Transit product introduced from Ford), and the J10 project (an upgrade Pickup product developed on the existing Pickup platform by the Company). These actions will be helpful to the competitiveness improvements in the segments we participated.

Finally, the company is continuing its efforts to strengthen its dealer network development and pursue export and OEM sales growth.

#### V. Investment in the Reporting Period

1. In First Half of 2012, JMC did not raise equity funding, nor did it use equity funding raised in previous years for capital investment.

2. Self funded major projects:

Project Name	First announcement date of disclosure	Total Investment Approval (RMB Mils)	Investment Committed (RMB Mils)	Investment To Be Committed (RMB Mils)	Planned Job#1 Date
N350	July 12, 2006	652.0	620.0	32.0	Second Half, 2012
JX4D24 Engine for N350	September 18, 2007	30.0	19.2	0.1	Second Half,2012
N900	October 11, 2005	200.0	193.1	0.3	Second Half,2012
N800	April 15, 2008	725.0	328.0	397.0	Second Half,2015
E802 Engine Program	December 27, 2008	419.0	189.6	229.4	Second Half,2015
A4 Press Line	March 27, 2007	384.0	318.7	-	Completed
JX4D24 Engine Phase II	July 10, 2008	315.0	126.8	188.2	Second Half,2012
CAL Program	July 12, 2006	47.1	38.8	-	Completed
Vehicle storage and delivery facility Phase I	April 15, 2008	35.0	30.5	-	Completed
PDM Program	July 10, 2008	10.5	8.7	1.8	Second Half,2012
V348 A4 Line Die Modification Program	April 2, 2009	10.0	9.7	-	Completed
Stage V and VI Emissions Facilities Program	August 23, 2009	26.6	19.6	-	Completed
Capacity Expansion Program	April 10, 2010	566.5	393.1	173.4	First Half,2013
N351 SUV AT Program	April 2, 2011	249.0	46.6	202.4	Second Half,2013
2.2L Global Puma Engine 4C Localization Program	April 10, 2010	30.0	10.6	19.4	Year End,2012
Casting Plant Melting Technical Improvement Program	April 10, 2010	10.0	8.2	-	Completed

N330 Program Long Lead Funding	July 1, 2010	327.0	59.4	267.6	Second Half,2013
V348 Transit Emission Update Program Long Lead Funding	July 1, 2010	336.2	205.5	130.7	First Half,2013
VE83 Transit Emission Update Program	July 1, 2010	7.5	4.9	-	Completed
N800 Long Wheel Base Vehicle Program	July 1, 2010	91.0	13.5	77.5	First Half,2013
Capacity Expansion in Xiao an Site	July 1, 2010	2,133.0	770.8	1,362.2	First Half, 2013
IT Strategy Proposal	July 1, 2010	45.0	36.2	6.0	Second Half,2012
Xiao an Site Test Track Program	September 17, 2010	79.6	25.8	53.8	First Half,2013
Capacity Expansion Investment	September 17, 2010	33.2	23.7	5.1	Second Half,2012
Phase II Investment of Vehicle Emission Test Lab	December 17, 2010	45.0	24.1	20.9	Year End,2012
PD Center Xiaolan Phase I Investment Program	June 25, 2011	424.0	18.7	405.3	Second Half,2013
Self-development Gas Engine Program Long Lead Funding	April 2, 2011	125.0	34.3	89.7	First Half,2013
Xiaolan Tryout Press Program	September 27, 2011	41.5	-	41.5	First Half,2014
Technological Transformation of Melting for Engine C/BL in Casting Plant	December 16, 2011	34.15	5.4	28.75	Second Half,2013
J08 Program Long Lead Funding	April 11, 2012	222.0	16.4	205.6	First Half,2013
J09 Program Long Lead Funding	March 29, 2012	612.0	8.2	603.8	Second Half,2013
J10 Program	June 21, 2012	153.0	4.7	148.3	Second Half,2014
Casting Plant Cold Core-making Line Capacity Investment Program	June 21, 2012	65.35	-	65.35	First Half,2014
Total		8,484.2	3,612.8	4,756.2	

The Spending will be funded from cash reserves.

## VI. 2012 Second Half Year Plan

The Company is projecting revenue in the range of RMB 7.5 to 9.5 billion for the Second Half of 2012. Intensified competition resulting from new market entries and the launch of new models will require increased levels of marketing expense. Additionally, R&D and capital expenditures are projected to be higher as we progress with new product programs and capacity expansion actions.

In the Second Half of 2012, the Company will continue to focus on generating cash and profits, enhance formulation of new product development strategies, and execute plans for future growth. Specific actions include:

- i. Accelerate efforts to strengthen our brands through enhancing the Company's

- distribution network, including brand-specific shop expansion and development of JMC service strategy to achieve volume and market share targets.
- ii. Improve product quality and customer satisfaction.
  - iii. Increase product cost reduction efforts and improve operating efficiencies to achieve profit and cost targets.
  - iv. Work with technology partners to execute the N330, N351, N800, J08, J09, J10 and Xiao and new Assembly Plant, Test Track, New R&D Center, etc.
  - v. Enhance and execute product and engine cycle plans.
  - vi. Expand finished vehicle exports and OEM component sales business.
  - vii. Deliver recruiting, retention and training objectives that help to strengthen employees' overall competence to support future growth.

## VII. Cash Dividend Distribution Policy and Implementation

According to the requirements of Notice on Further Implementing Cash Dividend Distribution Policy Among Listed Companies and Supplementary Notice on Further Implementing Cash Dividend Distribution Policy Among Listed Companies promulgated respectively by Chinese Securities Regulatory Commission (“CSRC”) and Jiangxi Branch, CSRC, the Board of Directors approved to amend the related articles in the Articles of Association of JMC involving profit distribution. The proposal on the amendments to the Articles of Association herein was approved at the 2012 Second Special Shareholders’ Meeting on August 24, 2012.

The following conditions shall be met in the case of cash dividend distribution subject to the revised Articles of Association:

- i. The distributable profit achieved in the current year (i.e. the remainder of after-tax profits after covering of the losses of the Corporation and drawing the reserves) shall be positive value;
- ii. There shall be no negative impact on the Corporation’s future operation after implementing such cash dividend distribution;
- iii. A standard audit report with no major comments shall be issued by an auditor for the financial statements of the current year.

The interval and minimal ratio of cash dividend: the accumulative profits distributed in cash within three years shall be no less than 30% of the average annual distributable profits achieved over the past three years.

The draft and execution of the Company’s cash dividend proposal complies with the relevant requirements of profit distribution stipulated in the Articles of Association of JMC. The proposal on cash dividend distribution was approved by the Board, and then reviewed and approved at the shareholders’ meeting. Conditions and ratio of the cash dividend distribution were clear and definitive, and the Company thought over reasonable appeals from the middle and small shareholders and defended their legal rights and interests strongly when drafting and executing the proposal. JMC had distributed cash dividends to all the shareholders in the consecutive nine years since 2003. Accumulated cash dividends for the nine years totaled RMB 3,409 million.

### VIII. Implementation of Rules on Administration of Insiders

JMC has established the Rules on Registration and Filing of Insiders of JMC and implements these Rules effectively. JMC Securities Department assists the Board Secretary to handle the routine administration of insiders. The Directors, Supervisors, senior executives and other insiders were advised that they shall not buy or sell JMC's stocks during the sensitive period prior to disclosure of periodical reports or major events. In the reporting period, the Company's Directors, Supervisors, senior executives and insiders did not buy or sell JMC's stocks in breach of the laws and regulations.

In the reporting period, JMC filed relevant registration tables of insiders with China Securities Regulatory Commission Jiangxi Branch and Shenzhen Stock Exchange as required and required relevant insiders to undertake confidentiality obligation and use such information within allowed scope per promissory requirements.

### IX. Others

JMC has passed the reexamination of Jiangxi Province hi-tech enterprise. The hi-tech enterprise qualification to the Company will be valid for three years (from April 20, 2012 to April 19, 2015). The enterprises passed reexamination as hi-tech enterprises can apply to enjoy an enterprise income tax preferential policy from the current year within the valid period. Enterprise income tax rate for a hi-tech enterprise will be 15% in compliance with the provisions of the relevant regulations issued by the State. Public announcement on the aforesaid event was published in China Securities, Securities Times and Hong Kong Commercial Daily on August 15, 2012.

Financial foreign currency assets and liabilities:

Unit: RMB

Item	Amount on January 1, 2012	Provision accrued in 2012	Amount on June 30, 2012
Bank deposit	13,002	-	-
Other receivables	-	-	3,310,145
Subtotal for financial assets	13,002	-	3,310,145
Subtotal for financial liabilities	90,687,463	-	61,330,673

## Section V Major Events

### I. Status of the Corporate Governance in JMC

During the reporting period, the Company continued to operate its corporate governance in compliance with the Company Law, the Securities Law, the Code of Corporate Governance for Listed Companies in China, as well as relevant laws and regulations, formulated the C-SOX Implementation Plan of JMC and appointed PricewaterhouseCoopers Zhong Tian CPAs Company Limited as JMC's 2012 C-SOX auditor.

### II. Execution of Profit Distribution Plan

The 2011 Annual Shareholders' Meeting of the Company approved the 2011 calendar year profit distribution plan on June 19, 2012. Announcement of 2011 calendar year



dividend distribution was published in China Securities, Securities Times and Hong Kong Commercial Daily on July 5, 2012, and it has been executed accordingly.

The 2011 calendar year dividend distribution plan was as follows:

Based on the Company's total share capital of 863,214,000 shares, a cash dividend of RMB 8.6 (including tax) per 10 shares is to be distributed to shareholders.

Individual shareholders, investment funds, and qualified foreign institutional investors holding the Company's A shares will receive an after-tax cash dividend of RMB 7.74 per 10 shares; For other domestic residential enterprises, the Company will not withhold nor pay the income tax on their behalf, and the taxpayer shall pay the tax in the place where the income is received.

Domestic individual shareholders and non-resident enterprises holding the Company's B share will receive an after-tax cash dividend of RMB 7.74 per 10 shares; For foreign individual shareholders, the Company will not withhold nor pay the income tax on their behalf.

The cash dividends on B shares shall be paid in Hong Kong Dollars converted at HKD1.00 = RMB0.8120, being the middle rate of the exchange rates between HK dollar and RMB quoted by the People's Bank of China on the first business day (June 20, 2012) immediately after the relevant resolutions were passed at the Company's Shareholders' Meeting.

JMC did not convert capital reserves into share capital in the reporting period.

III. JMC had no major litigation or arbitration issues in the reporting period.

IV. JMC had no major purchase or sale of assets during the reporting period.

V. Major related party transactions

1. Related party transactions for purchase of commodities and services in the reporting period

(1) JMC purchased certain raw materials, auxiliary materials and components from related parties. Transactions with half-year value over RMB 15 million are listed below:

Transaction Parties	Pricing Principle	Settlement Method	Amount (RMB '000)	As % of Total Purchases
Nanchang Bao-jiang Steel Processing & Distribution Co., Ltd.	Contracted price	Prepayment	351,518	5.13
GETRAG (Jiangxi) Transmission Company	Contracted price	60 days after delivery and invoicing	296,587	4.33
Jiangxi Jiangling Chassis Company	Contracted price	60 days after delivery and invoicing	289,881	4.23
JMCG Interior Trim Factory	Contracted price	60 days after delivery and	243,391	3.55

		invoicing		
Jiangling-Lear Interior Trim Factory	Contracted price	60 days after delivery and invoicing	170,354	2.49
Ford	Contracted price	D/P	117,830	1.72
NanchangJMCG Liancheng Auto Component Co.	Contracted price	60 days after delivery and invoicing	113,576	1.66
Nanchang Jiangling Huaxiang Auto Components Co.	Contracted price	60 days after delivery and invoicing	101,659	1.48
Jiangxi Specialty Vehicles Jiangling Motors Group Co., Ltd.	Contracted price	60 days after delivery and invoicing	95,320	1.39
Visteon Climate Control (Nanchang) Co., Ltd.	Contracted price	60 days after delivery and invoicing	94,756	1.38
JMCG	Contracted price	60 days after delivery and invoicing	61,928	0.90
Nanchang Lianda Mechanical Co., Ltd.	Contracted price	60 days after delivery and invoicing	27,724	0.40
Nanchang JMCG Tianren Auto Component Co.	Contracted price	60 days after delivery and invoicing	27,202	0.40
Jiangling Material Company	Contracted price	Pay on delivery	24,653	0.36
Jiangxi JMCG Aowei Auto Component Co.	Contracted price	60 days after delivery and invoicing	18,133	0.26
Jiangling Metal Casting Co.	Contracted price	60 days after delivery and invoicing	17,281	0.25

(2) The sales of products by JMC to related parties with half-year value over RMB 15 million are listed below:

Transaction Parties	Pricing Principle	Settlement Method	Amount (RMB'000)	As % of Total Revenue
JMCG Import and Export Co., Ltd.	Contracted price	Receiving 40% in advance and clearance of the remains within 30 days after invoicing	502,723	5.76
Jiangxi Specialty Vehicles Jiangling Motors Group Co., Ltd.	Contracted price	Monthly Netting off payment of	69,502	0.80

		purchased goods		
Jiangxi Jiangling Material Utilization Co., Ltd.	Market price	Monthly settlement	41,743	0.48
JMCG Interior Trim Factory	Contracted price	Monthly Netting off payment of purchased goods	39,466	0.45
Jiangling New-power Auto Manufacturing Co.	Contracted price	30 days after invoicing	20,199	0.23
Nanchang JMCG Liancheng Auto Component Co.	Contracted price	60 days after invoicing	16,716	0.19

In the above mentioned pricing principle, market price means that it is based on the market price of similar products, and contracted price means that for unique products or services for which comparable market data is difficult to obtain, prices are determined through the process of supplier quotation, cost assessment and negotiations.

### (3) Management Compensations

Pursuant to revised Personnel Secondment Agreement signed between JMC and Ford and Ford Affiliates, in the first half of 2012, the Company should pay US\$ 2,531,250 and RMB 1,435,000 thousand to Ford as service fee for expatriate secondees and Chinese secondees assigned by Ford.

Pursuant to an agreement between the Company and JMH on January 1, 2012, in the first half of 2012, the Company should pay approximately RMB 440,734 to JMH as service fee for the employees assigned by JMH.

### (4) Working Meal

In the first half of 2012, JMC paid RMB 10.98 million for working meal to Jiangxi JMCG Industrial Company.

### (5) Purchasing Agency

JMCG Import & Export Co., Ltd. was the import agent of JMC for acquiring import materials, equipment and technology services. In the first half of 2012, JMC paid JMCG Import & Export Co., Ltd. commission of RMB 2.59 million pursuant to the Exclusive Import Agency Agreement signed by them.

### (6) Project Construction and Maintenance

In the first half of 2012, JMC paid RMB 10.74 million for project construction and maintenance to JMCG Jiangxi Engineering Construction Co., Ltd.

2. The Company had no major related party transaction concerning transfer of assets or equity during the reporting period.

### 3. Creditor's rights, liabilities and guarantees between JMC and related parties

(1) Balance of accounts due to or due from main related parties with value over RMB 30 million:

Unit: RMB '000

Item	Related Parties	Amount	Ratio to the
------	-----------------	--------	--------------

		(RMB thousands)	Balance of the Item
Receivables	JMCG Import and Export Co., Ltd.	51,709	16.53
Prepayment	Nanchang Bao-jiang Steel & Processing Distribution Co., Ltd.	144,554	76.57
Accounts and bills payable	Jiangxi Specialty Vehicles Jiangling Motors Group Co., Ltd.	206,123	6.42
Accounts and bills payable	Jiangxi Jiangling Chassis Company	183,813	5.73
Accounts and bills payable	GETRAG (Jiangxi) Transmission Company	134,576	4.19
Accounts and bills payable	JMCG Interior Trim Factory	116,194	3.62
Accounts and bills payable	Jiangling-Lear Interior Trim Factory	96,077	2.99
Accounts and bills payable	Nanchang JMCG Liancheng Auto Component Co.	85,207	2.66
Accounts and bills payable	Nanchang Jiangling Huaxiang Auto Components Co.	73,296	2.28
Accounts and bills payable	Visteon Climate Control (Nanchang) Co., Ltd.	68,195	2.13
Accounts and bills payable	JMCG	30,748	0.96
Accounts and bills payable	Ford	30,298	0.94
Other payables	Ford	31,565	4.50

## (2) Deposit

On June 30, 2012, JMC had a deposit of RMB 194.85 million in JMCG Finance Co., Ltd. JMC received a total of RMB 2.47 million in interest from JMCG Finance Co., Ltd. in the first half of 2012.

## (3) Guarantees to JMC

As of June 30, 2012, JMCG Finance Co, Ltd provided a guarantee for JMC's bank loans of US\$ 1.02 million.

## 4. Other major related party transactions during the first half of 2012

According to the V348 Transit Vehicles Series Technology Licensing Contract ("V348 TLC") signed by JMC and Ford as well as Supplemental Agreement to V348 TLC jointly signed by Ford, Ford Global Technologies, LLC., Ford Otosan and JMC, JMC is to pay licensing fee annually reflecting 2.6% of V348 Transit net sales revenue. Ford Global Technologies, LLC. shall receive 67.31% of the licensing fee and Ford Otosan shall receive the remainder 32.69%. JMC bore a licensing fee of US\$ 3,177,300 (equal to RMB 20,047,328) in the first half of 2012.

According to the Engagement Agreement Concerning China V348 Stage V and MCA Engineering Services signed by JMC and Ford, JMC is to pay the engineering service fee of US\$ 26.381 million to Ford quarterly and pay off before the first quarter of

2013. JMC bore an engineering service fee of US\$ 771,280 (equal to RMB 5,457,407) in the first half of 2012.

According to Ford Puma Technology Licensing Contract signed by JMC and Ford in 2007, JMC is to pay royalty fee of US\$ 92 for each of the Engine Products manufactured by JMC and matched with JMC brand vehicle under the aforesaid license to Ford. JMC bore a royalty fee of US\$ 478,952 (equivalent to approximately RMB 3,020,788) in the first half of 2012.

VI. There were neither entrustment, contracts or leased assets from other companies, nor entrustment, contracts or leases of JMC's assets to other companies from which profit was generated in excess of 10% of the reporting period total profit. JMC did not entrust other people with cash asset management in the reporting period.

VII. Neither the Company nor its directors or senior management were punished by regulatory authorities in the reporting period.

VIII. The independent directors' explanation and independent opinions on the Company's outside guarantee and the Company's account receivables by related parties

Independent Director Shi Jiansan, Vincent Pun Fong Kwan and Wang Xu expressed their opinions on the Company's outside guarantee and the Company's account receivables by related parties as follows:

- i. There is no outside guarantee during the reporting period;
- ii. We are aware of the cash flow occurring between the Company and its controlling shareholders and other related parties, and believe that: cash flow occurring between the Company and its controlling shareholders and other related parties resulted from normal business transactions. There was no illegal embezzlement of company funds, and
- iii. We have known the related party transaction with JMCG Finance Company ("Finance Company"), and believe that the deposit limit of JMC in the Finance Company and the proportion of the revenue settled through the Finance Company in JMC's gross revenue are reasonable. And, it ensured to minimize the risk on the fund that JMCG and its subsidiaries (excluding JMC) bear the unconditional joint and several guarantee obligation for all the debts, obligations and responsibilities occurred due to the settlement transaction with the Finance Company; the review and approval procedure of the related party transaction with the Finance Company complied with the stipulations of the relevant laws, regulations and the Articles of Association of JMC.

IX. External research and media interviews of the Company

Date	Place	Communication Method	Object	Information discussed and sources offered
January 13, 2012	In the Company	Oral Communication	Three analysts from Orient Securities Company Limited, China International Fund Management Co., Ltd., E Fund Management Co.,	JMC Operating highlights

			Ltd.	
January 18, 2012	In the Company	Oral Communication	An analyst from Founder Securities Company Limited	JMC Operating highlights
February 9, 2012	In the Company	Oral Communication	Three analysts from Ping An Insurance (Group) Company of China, Ltd., New China Asset Management Co., Ltd.	JMC Operating highlights
February 15, 2012	In the Company	Oral Communication	Two analysts from New Thinking Investment Management Co., Ltd., Guoyuan Consulting Service Company	JMC Operating highlights
February 17, 2012	In the Company	Oral Communication	Four analysts from Zhonghai Fund Management Co., Ltd., SWS MU Fund Management Co., Ltd., Golden Eagle Asset Management Co., Ltd.	JMC Operating highlights
March 30, 2012	In the Company	Oral Communication	Two analysts from China Asset Management Co., Ltd., Huachuang Securities Company Limited	JMC Operating highlights
April 17, 2012	In the Company	Oral Communication	Seven analysts from Mingsheng Securities Co., Ltd., New China Fund Management Co., Ltd., China Universal Asset Management Co., Ltd., Industrial Securities Co., Ltd., Huaan Fund Management Co., Ltd., SWS MU Fund Management Co., Ltd., Fortis Haitong Investment Management Co., Ltd.	JMC Operating highlights
May 9, 2012	In the Company	Oral Communication	Four analysts from Huatai United Securities Company, Dacheng Fund Management Co., Ltd.	JMC Operating highlights
May 17, 2012	In the Company	Oral Communication	Three analysts from Donghai Securities Company, Xiangcai	JMC Operating highlights

			Securities Co., Ltd., Nanjing Securities Company	
May 29, 2012	In the Company	Oral Communication	Twelve analysts from China Galaxy Securities Co., Ltd., Mingji Investment Company, Sunshine Insurance Group Corporation Limited, Harvest Fund Management Co., Ltd., Guotai Junan Securities Co., Ltd., Shanghai Kaishi Investment Management Company, Dacheng Fund Management Co., Ltd., GF Securities Co., Ltd., Industrial Securities Co., Ltd.	JMC Operating highlights

#### X. Establishment and Implementation of Internal Control System

During the reporting period, the Company continuously improves its corporate governance and internal control in compliance with the Code of Corporate Governance for Listed Companies in China, Basic Standards for Enterprise Internal Control, Guidance for Enterprise Internal Control, and meet the company's operational status. Conclusion drawn from the results of testing conducted by the Internal Audit Office is that the Company's Internal Control is effective and no significant deficiency or frauds have been found. Major internal control work completed in the first half year of 2012 is as follows:

- i. Per the requirement of Basic Standards for Enterprise Internal Control (C-SOX), the leading team and implementing team were established, and a C-SOX Implementation Work Plan approved by Board of Directors was submitted to Jiangxi Securities Regulatory Bureau. Testing scope along with assessment criteria was determined, risk matrix developed, and external auditor to assess company's internal control status was selected. Key processes and high risky areas were determined, and relevant training was organized by the external auditor and Internal Audit Office. Testing will be performed to identify control deficiencies, with corrective actions to be developed and implemented.
- ii. The Internal Audit Office conducted testing on key processes based on the Audit Work Plan approved by the Audit Committee. Special attention was focused on the Company's purchasing & payables processes and variable & fixed marketing programs. Corrective actions were put into place as planned for the control issues identified.

XI. JMC did not participate in securities investments nor did it hold equity in other listed companies during the reporting period.

## XII. Appointment or Dismissal of Accounting Firms

Upon the approval of 2011 Annual Shareholders' Meeting, JMC continues to appoint PwC Zhong Tian as JMC's A & B share auditor from year 2013 to year 2015. The firm has offered JMC audit services for eleven consecutive years.

The compensation paid to the accounting firm is as follows:

<b>Accountant Firm</b>	<b>Year 2012</b>	<b>Out of Pocket Expense</b>
PwC ZhongTian	No more than RMB 1.80 million (Both A & B share)	Included in audit fee.

## XIII. Subsequent Event

### i. Acquiring 100% equity of Taiyuan Changan Heavy Truck Company

On July 16, 2012, the Board of Directors approved acquiring 100% equity of Taiyuan Changan Heavy Truck Company ("TCHT") jointly held by China South Industries Group Corporation ("CSIG") and China Changan Automobile Group Co., Ltd. ("CCAG") with a consideration of no more than RMB 270 million, approved the Equity Transfer Agreement reached by CSIG, CCAG and the Company for the acquisition, and authorized the Chairman to sign this Agreement. Upon the completion of the equity transfer, TCHT will be a whole-owned subsidiary of the Company to manufacture heavy duty trucks.

The transaction is subject to the approvals of the relevant government authorities. Upon the issuance of 2012 Half-year Report, the Company has paid RMB 27 million for the acquisition.

The Board of Directors approved the Agreement to Encourage and Support Taiyuan Heavy Duty Truck Project between the Management Commission of Taiyuan Economic & Technical Development Zone and the Company on July 16, 2012.

Please refer to the related Public Announcement in China Securities, Securities Times and Hong Kong Commercial Daily on July 18, 2012 for details of the aforesaid events.

### ii. Transfer of Equity in Jiangling Isuzu Co., Ltd.

On August 6, 2012, the Board of Directors approved, after transfer of all the operation assets, rights and obligations (other than taxation related rights and obligations) of Jiangling Isuzu Co., Ltd. ("JMC Isuzu") to the Company (which shall be completed no later than January 31, 2013), and distribution of all accumulative distributable profits of JMC Isuzu, to transfer 75% of equity held by the Company in JMC Isuzu to JMCG, with a price of no less than the amount equal to 75% of the net assets value stated in the formal audit report issued by an accounting firm appointed jointly by the Company and JMCG. The Board of Directors also approved the Agreement on Transfer of Equity in Jiangling Isuzu Co., Ltd. between JMCG and the Company, and authorized the Company's Vice Chairman, David L. Schoch, to sign this Agreement. If the final price of the equity transfer is over the Board's authority, the transfer shall be submitted to the Shareholders' Meeting of the Company for approval.

JMC Isuzu was established in 1993 with 75% equity owned by JMC and 25% owned by Isuzu Motors Corporation and Itochu Corporation. The business license of JMC



Isuzu will expire in March 2013. JMCG intends to acquire the equity held by the Company in JMC Isuzu and to establish a new whole vehicle program with Isuzu Motors Corporation. To ensure the Company's business continuity, all the operation assets of JMC Isuzu shall be transferred to JMC before the equity transfer. Isuzu Motors Corporation and Itochu Corporation abandon the priority to purchase the equity.

Please refer to the related Public Announcement in China Securities, Securities Times and Hong Kong Commercial Daily on August 8, 2012 for details of the aforesaid events.

#### XIV. Indexes for publication of information disclosure

All announcements of the Company are published in China Securities, Securities Time and Hong Kong Commercial Daily. The website for information disclosure is <http://www.cninfo.com.cn>. The listing of information disclosed in the first half of 2012 is as follows:

1. Production and sales volume information in December 2011 was published on January 5, 2012.
2. Announcement on the resolution of the Supervisory Board was published on January 11, 2012.
3. Announcements on the resolutions of the Board of Directors and the Notice on Holding 2012 First Special Shareholders' Meeting were published on January 17, 2012.
4. Year 2011 performance flash report was published on January 19, 2012.
5. Production and sales volume information in January 2012 was published on February 3, 2012.
6. Announcement on the resolution of the Board of Directors was published on March 1, 2012.
7. Announcement on the resolutions of 2012 First Special Shareholders' Meeting was published on March 2, 2012.
8. Production and sales volume information in February 2012 was published on March 3, 2012.
9. Extracts from the 2011 Annual Report and announcements on the relevant resolutions of the Board of Directors and the Supervisory Board were published on March 16, 2012.
10. Announcement on the resolutions of the fourth session of the seventh Board was published on March 29, 2012.
11. Production and sales volume information in March 2012 was published on April 6, 2012.
12. Announcement on the resolution of the Board of Directors was published on April 11, 2012.
13. 2012 First Quarter Report was published on April 25, 2012.
14. Production and sales volume information in April 2012 was published on May 3, 2012.
15. Announcements on the resolutions of the Board of Directors and the Notice on Holding 2011 Annual Shareholders' Meeting were published on May 29, 2012.
16. Production and sales volume information in May 2012 was published on June 5, 2012.
17. Announcement on the resolutions of 2011 Annual Shareholders' Meeting was published on June 20, 2012.

18. Announcement on the resolutions of the fifth session of the seventh Board was published on June 21, 2012.

## **Section VI    Financial Statements**

The Half-year Financial Statements have not been audited.

**JIANGLING MOTORS CORPORATION, LTD.**

**CONSOLIDATED STATEMENT OF FINANCIAL POSITION  
AS AT 30 JUNE 2012**

(All amounts in RMB unless otherwise stated)

	Note	As at	
		30 June 2012#	31 December 2011
		RMB'000	RMB'000
<b>ASSETS</b>			
<b>Non-current assets</b>			
Property, plant and equipment	5	3,752,263	3,271,690
Lease prepayment	6	268,085	271,347
Intangible assets	7	17,960	21,954
Investments in associate	8	21,263	17,851
Deferred income tax assets	9	170,757	250,182
		<u>4,230,328</u>	<u>3,833,024</u>
<b>Current assets</b>			
Inventories	10	1,269,159	1,140,253
Trade and other receivables	11	1,463,527	1,461,601
Cash and cash equivalents	12	5,692,668	5,384,977
		<u>8,425,354</u>	<u>7,986,831</u>
<b>Total assets</b>		<b><u>12,655,682</u></b>	<b><u>11,819,855</u></b>
<b>EQUITY</b>			
<b>Capital and reserves attributable to the Company's equity holders</b>			
Share capital	13	863,214	863,214
Share premium		816,609	816,609
Other reserves	14	457,650	457,650
Retained earnings		5,270,829	5,174,295
		<u>7,408,302</u>	<u>7,311,768</u>
<b>Non-controlling interests</b>		130,741	115,352
<b>Total equity</b>		<b><u>7,539,043</u></b>	<b><u>7,427,120</u></b>
<b>LIABILITIES</b>			
<b>Non-current liabilities</b>			
Borrowings	15	6,006	6,189
Retirement benefit obligations	16	45,601	52,198
Warranty provisions	17	156,432	140,855
		<u>208,039</u>	<u>199,242</u>
<b>Current liabilities</b>			
Financial liabilities held for trading	18	23	6,696
Trade and other payables	19	4,896,834	4,167,795
Current income tax liabilities		615	7,875
Borrowings	15	414	413
Retirement benefit obligations	16	10,714	10,714
		<u>4,908,600</u>	<u>4,193,493</u>
<b>Total liabilities</b>		<b><u>5,116,639</u></b>	<b><u>4,392,735</u></b>
<b>Total equity and liabilities</b>		<b><u>12,655,682</u></b>	<b><u>11,819,855</u></b>

Unaudited financial indexes

The notes on pages 30 to 74 are an integral part of these consolidated financial statements.

**JIANGLING MOTORS CORPORATION, LTD.**

**CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME  
FOR THE SIX MONTHS ENDED 30 JUNE 2012**

(All amounts in RMB unless otherwise stated)

	Note	Six months ended 30 June	
		2012#	2011#
		RMB'000	RMB'000
Revenue	20	8,721,529	9,221,540
Sales tax		(255,970)	(262,719)
Cost of sales	21	(6,591,019)	(6,992,497)
<b>Gross profit</b>		<b>1,874,540</b>	<b>1,966,324</b>
Distribution costs	21	(551,581)	(402,393)
Administrative expenses	21	(375,191)	(361,193)
Other income	23	8,449	679
<b>Operating profit</b>		<b>956,217</b>	<b>1,203,417</b>
Finance income	24	115,662	80,433
Finance costs	24	(508)	(570)
Finance income-net	24	115,154	79,863
Share of profit of associates	8	3,412	3,229
<b>Profit before income tax</b>		<b>1,074,783</b>	<b>1,286,509</b>
Income tax expense	25	(220,496)	(188,109)
<b>Profit for the period</b>		<b>854,287</b>	<b>1,098,400</b>
Profit attributable to:			
Equity holders of the Company		838,898	1,075,018
Non-controlling interests		15,389	23,382
		<b>854,287</b>	<b>1,098,400</b>
Other comprehensive income		-	-
<b>Total comprehensive income for the period</b>		<b>854,287</b>	<b>1,098,400</b>
<b>Total comprehensive income attributable to:</b>			
Equity holders of the Company		838,898	1,075,018
Non-controlling interests		15,389	23,382
		<b>854,287</b>	<b>1,098,400</b>
<b>Earnings per share for profit attributable to the equity holders of the Company</b> (expressed in RMB per share)			
- Basic and diluted	26	0.97	1.25

#Unaudited financial indexes

The notes on pages 30 to 74 are an integral part of these consolidated financial statements.

**JIANGLING MOTORS CORPORATION, LTD.**

**CONSOLIDATED STATEMENT OF CHANGES IN EQUITY  
FOR THE SIX MONTHS ENDED 30 JUNE 2012**

(All amounts in RMB unless otherwise stated)

Note	<u>Attributable to equity holders of the Company</u>				Non- controlling interests#	Total equity#
	Share capital	Share premium	Other reserves	Retained earnings		
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Balance at 1 January 2011	863,214	816,609	457,650	3,989,803	115,319	6,242,595
Profit for the six months	-	-	-	1,075,018	23,382	1,098,400
Dividend relating to 2010	-	-	-	(681,939)	-	(681,939)
<b>Balance at 30 June 2011</b>	<b>863,214</b>	<b>816,609</b>	<b>457,650</b>	<b>4,382,882</b>	<b>138,701</b>	<b>6,659,056</b>
Balance at 1 January 2012	863,214	816,609	457,650	5,174,295	115,352	7,427,120
Profit for the six months	-	-	-	838,898	15,389	854,287
Dividend relating to 2011	-	-	-	(742,364)	-	(742,364)
<b>Balance at 30 June 2012</b>	<b>863,214</b>	<b>816,609</b>	<b>457,650</b>	<b>5,270,829</b>	<b>130,741</b>	<b>7,539,043</b>

#Unaudited financial indexes

The notes on pages 30 to 74 are an integral part of these consolidated financial statements.

**JIANGLING MOTORS CORPORATION, LTD.**

**CONSOLIDATED STATEMENT OF CASH FLOWS  
FOR THE SIX MONTHS ENDED 30 JUNE 2012**

(All amounts in RMB unless otherwise stated)

	Note	Six months ended June 30	
		2012# RMB'000	2011# RMB'000
<b>Cash flows from operating activities</b>			
Cash generated from operations	28	1,112,092	322,759
Interest paid		(271)	(422)
Income tax paid		(139,390)	(172,960)
<b>Net cash generated from operating activities</b>		<u>972,431</u>	<u>149,377</u>
<b>Cash flows from investing activities</b>			
Purchase of held-to-maturity investments		-	(314,968)
Purchase of property, plant and equipment ("PPE")		(754,004)	(399,262)
Other cash paid relating to investing activities		(7,159)	-
Proceeds from disposal of PPE	28	1,151	1,239
Proceed from repayment of held-to-maturity investments		-	315,326
Interest received		95,534	58,410
Other cash received from investing activities		508	12
<b>Net cash used in investing activities</b>		<u>(663,970)</u>	<u>(339,243)</u>
<b>Cash flows from financing activities</b>			
Repayments of borrowings		(206)	(24,668)
Dividends paid to the Company's shareholders		(265)	(276)
Other cash paid relating to financing activities		(299)	(231)
<b>Net cash used in financing activities</b>		<u>(770)</u>	<u>(25,175)</u>
<b>Net increase/(decrease) in cash and cash equivalents</b>		307,691	(215,041)
Cash and cash equivalents at beginning of year		<u>5,384,977</u>	<u>5,813,162</u>
<b>Cash and cash equivalents at end of period</b>		<u><b>5,692,668</b></u>	<u><b>5,598,121</b></u>

#Unaudited financial indexes

The notes on pages 30 to 74 are an integral part of these consolidated financial statements.

# **JIANGLING MOTORS CORPORATION, LTD.**

## **FOR THE SIX MONTHS ENDED 30 JUNE 2012 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

(All amounts in RMB unless otherwise stated)

### **1 General information**

Jiangling Motors Corporation, Ltd. (the “Company”) was established in the People’s Republic of China (the “PRC”) under the Company Law of the PRC and according to the approval of Hongban (1992) No. 005 of Nanchang Revolution and Authorization Group of Company’s Joint Stock as a joint stock limited company to hold certain operational assets and liabilities of the automotive manufacturing business of Jiangxi Motors Manufacturing Factory, which was owned by Jiangling Motors Corporation Group (“JMCG”). The legal representative’s operating license of the Company is No. 360000511000021.

The address of the Company’s registered office is No.509, Northern Yingbin Avenue, Nanchang, Jiangxi Province, the PRC.

In December 1993, the Company issued 494,000,000 domestic ordinary shares (“A share”). In addition, the Company issued 25,214,000 A shares as bonus shares to the existing shareholders in 1994. The bonus shares were issued by utilisation of the Company’s retained earnings.

In 1995, the Company issued 174,000,000 domestically listed foreign shares (“B share”) and the Company issued 170,000,000 additional B shares in 1998.

As at 30 June 2012, the total issued shares of the Company are 863,214,000 shares, which are all listed on the Shenzhen Stock Exchange, the PRC.

The Company and its subsidiary (the “Group”) are principally engaged in the development, manufacturing and selling of automobiles, engines and automobile related parts, dies and tools.

These consolidated financial statements were authorised for issue by the Board of Directors on 26 August 2012.

### **2 Summary of significant accounting policies**

The principal accounting policies applied in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

#### **2.1 Basis of preparation**

The consolidated financial statements of the Group have been prepared in accordance with International Financial Reporting Standards (“IFRS”). The consolidated financial statements have been prepared under the historical cost convention except as disclosed in the accounting policies below.

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group’s accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimations are significant to the consolidated financial statements are disclosed in Note 4.

# JIANGLING MOTORS CORPORATION, LTD.

## FOR THE SIX MONTHS ENDED 30 JUNE 2012 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(All amounts in RMB unless otherwise stated)

### 2 Summary of significant accounting policies (continued)

#### 2.1 Basis of preparation (continued)

##### Changes in accounting policy and disclosures

###### *(a) New and amended standards adopted by the Group*

The following new standards and amendments to standards are mandatory for the first time for the financial year beginning 1 January 2011 that would be expected to have impact on the Group.

- IAS 24 (Revised), "Related Party Disclosures" is effective for annual period beginning on or after January 2011. It introduces an exemption from all of the disclosure requirements of IAS 24 for transactions among government related entities and the government. Those disclosures are replaced with a requirement to disclose:
  - The name of the government and the nature of their relationship;
  - The nature and amount of any individually significant transactions; and
  - The extent of any collectively-significant transactions qualitatively or quantitatively.

It also clarifies and simplifies the definition of a related party.

Refer to Note 31 (Viii) for details of transactions with government related entities.

###### *(b) New and amended standards have been issued but are not effective for the financial year beginning 1 January 2011 and have not been early adopted*

The Group's and Company's assessment of the impact of these new and amended standards is set out below.

- IFRS 9, 'Financial instruments', addresses the classification, measurement and recognition of financial assets and financial liabilities. IFRS 9 was issued in November 2009. It replaces the parts of IAS 39 that relate to the classification and measurement of financial instruments. IFRS 9 requires financial assets to be classified into two measurement categories: those measured as at fair value and those measured at amortised cost. The determination is made at initial recognition. The classification depends on the entity's business model for managing its financial instruments and the contractual cash flow characteristics of the instrument. For financial liabilities, the standard retains most of the IAS 39 requirements. The main change is that, in cases where the fair value option is taken for financial liabilities, the part of a fair value change due to an entity's own credit risk is recorded in other comprehensive income rather than profit or loss, unless this creates an accounting mismatch. The Group is yet to assess IFRS 9's full impact and intends to adopt IFRS 9 upon its effective date, which is for the accounting period beginning on or after 1 January 2015.



# JIANGLING MOTORS CORPORATION, LTD.

## FOR THE SIX MONTHS ENDED 30 JUNE 2012 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(All amounts in RMB unless otherwise stated)

### 2 Summary of significant accounting policies (continued)

#### 2.1 Basis of preparation (continued)

##### Changes in accounting policy and disclosures (continued)

- IFRS 10, 'Consolidated financial statements' builds on existing principles by identifying the concept of control as the determining factor in whether an entity should be included within the consolidated financial statements of the parent company. The standard provides additional guidance to assist in the determination of control where this is difficult to assess. The Group is yet to assess IFRS 10's full impact and intends to adopt IFRS 10 no later than the accounting period beginning on or after 1 January 2013.
- IFRS 12, 'Disclosures of interests in other entities' includes the disclosure requirements for all forms of interests in other entities, including joint arrangements, associates, special purpose vehicles and other off balance sheet vehicles. The Group is yet to assess IFRS 12's full impact and intends to adopt IFRS 12 no later than the accounting period beginning on or after 1 January 2013.
- IFRS 13, 'Fair value measurement' aims to improve consistency and reduce complexity by providing a precise definition of fair value and a single source of fair value measurement and disclosure requirements for use across IFRSs. The requirements do not extend the use of fair value accounting but provide guidance on how it should be applied where its use is already required or permitted by other standards within IFRS. The Group is yet to assess IFRS 13's full impact and intends to adopt IFRS 13 no later than the accounting period beginning on or after 1 January 2013.

There are no other IFRSs or IFRIC interpretations that are not yet effective that would be expected to have a material impact on the Group.

#### 2.2 Consolidation

##### (1) Subsidiaries

Subsidiaries are all entities (including special purpose entities) over which the Group has the power to govern the financial and operating policies generally accompanying a shareholding of more than one half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group controls another entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are de-consolidated from the date that control ceases.

Inter-company transactions, balances, income and expenses on transactions between group companies are eliminated. Profits and losses resulting from inter-company transactions that are recognised in assets are also eliminated. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

##### (2) Associates

Associates are all entities over which the Group has significant influence but not control, generally accompanying a shareholding of between 20% and 50% of the voting rights. Investments in associates are accounted for using the equity method of accounting. Under the equity method, the investment is initially recognised at cost, and the carrying amount is increased or decreased to recognise the investor's share of the profit or loss of the investee after the date of acquisition. The Group's investment in associates includes goodwill identified on acquisition.

## **JIANGLING MOTORS CORPORATION, LTD.**

### **FOR THE SIX MONTHS ENDED 30 JUNE 2012 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

(All amounts in RMB unless otherwise stated)

#### **2 Summary of significant accounting policies (continued)**

##### **2.2 Consolidation (continued)**

###### **(2) Associates (continued)**

The Group's share of post-acquisition profit or loss is recognised in profit or loss, and its share of post-acquisition movements in other comprehensive income is recognised in other comprehensive income with a corresponding adjustment to the carrying amount of the investment. When the Group's share of losses in an associate equals or exceeds its interest in the associate, including any other unsecured receivables, the Group does not recognise further losses, unless it has incurred legal or constructive obligations or made payments on behalf of the associate.

The Group determines at each reporting date whether there is any objective evidence that the investment in the associate is impaired. If this is the case, the Group calculates the amount of impairment as the difference between the recoverable amount of the associate and its carrying value and recognises the amount adjacent to 'share of profit/(loss) of an associate' in profit or loss.

Profits and losses resulting from upstream and downstream transactions between the Group and its associate are recognised in the Group's financial statements only to the extent of unrelated investor's interests in the associates. Unrealised losses are eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of associates have been changed where necessary to ensure consistency with the policies adopted by the Group.

Dilution gains and losses arising in investments in associates are recognised in profit or loss.

##### **2.3 Segment Reporting**

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. The chief operating decision-maker, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the executive committee that makes strategic decisions.

##### **2.4 Foreign currency translation**

###### **(1) Functional and presentation currency**

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates (the "functional currency"). The consolidated financial statements are presented in Renminbi ("RMB"), which is the Company's functional and the Group's presentation currency.

# JIANGLING MOTORS CORPORATION, LTD.

## FOR THE SIX MONTHS ENDED 30 JUNE 2012 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(All amounts in RMB unless otherwise stated)

### 2 Summary of significant accounting policies (continued)

#### 2.4 Foreign currency translation (continued)

##### (2) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions or valuation where items are remeasured. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in profit or loss, except when deferred in equity as qualifying cash flow hedges and qualifying net investment hedges.

Foreign exchange gains and losses are presented in profit or loss within "other income/(expense)-net".

Changes in the fair value of monetary securities denominated in foreign currency classified as available-for-sale are analysed between translation differences resulting from changes in the amortised cost of the security and other changes in the carrying amount of the security. Translation differences related to changes in amortised cost are recognised in profit or loss, and other changes in carrying amount are recognised in other comprehensive income.

Translation differences on non-monetary financial assets and liabilities such as equities held at fair value through profit or loss are recognised in profit or loss as part of the fair value gain or loss. Translation differences on non-monetary financial assets, such as equities classified as available-for-sale, are included in other comprehensive income.

#### 2.5 Property, plant and equipment

Property, plant and equipment are stated at historical cost less accumulated depreciation and any impairment losses. Historical cost includes expenditure that is directly attributable to the acquisition or construction of the items.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognised. All other repairs and maintenance are charged to profit or loss during the financial period in which they are incurred.

Depreciation is calculated using the straight-line method to allocate their cost to their residual values over their estimated useful lives, as follows:

Buildings	35-40 years
Plant and machinery	10-15 years
Motor vehicles	6-10 years
Moulds	5 years
Electronic and other equipments	5-7 years

## **JIANGLING MOTORS CORPORATION, LTD.**

### **FOR THE SIX MONTHS ENDED 30 JUNE 2012 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

(All amounts in RMB unless otherwise stated)

#### **2 Summary of significant accounting policies (continued)**

##### **2.5 Property, plant and equipment (continued)**

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at the end of each reporting period.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount (Note 2.8).

Gains and losses on disposals are determined by comparing the proceeds with the carrying amount and are recognised within 'other income/(expense) – net' in profit or loss.

Assets under construction represent buildings under construction and plant and equipment pending installation, and are stated at cost. Costs include construction and acquisition costs. No provision for depreciation is made on assets under construction until such time as the relevant assets are completed and ready for intended use. When the assets concerned are brought into use, the costs are transferred to property, plant and equipment and depreciated in accordance with the policy as stated above.

##### **2.6 Lease prepayment**

Lease prepayment represents upfront prepayment made for the land use rights, and is expensed in profit or loss on a straight line basis over the period of the lease or when there is impairment, the impairment is expensed in profit or loss.

##### **2.7 Intangible assets**

###### **(1) Research and development**

Research expenditure is recognised as an expense as incurred. Costs incurred on development projects (relating to the design and testing of new or improved products) are recognised as intangible assets when the following criteria are fulfilled:

- (a) it is technically feasible to complete the intangible asset so that it will be available for use or sale;
- (b) management intends to complete the intangible asset and use or sell it;
- (c) there is an ability to use or sell the intangible asset;
- (d) it can be demonstrated how the intangible asset will generate probable future economic benefits;
- (e) adequate technical, financial and other resources to complete the development and to use or sell the intangible asset are available; and
- (f) the expenditure attributable to the intangible asset during its development can be reliably measured.

Other development expenditures that do not meet these criteria are recognised as an expense as incurred. Development costs previously recognised as an expense are not recognised as an asset in a subsequent period. Capitalised development costs are recorded as intangible assets and amortised from the point at which the asset is ready for use on a straight-line basis over its useful life.

No development costs were capitalised by the Group during the six months ended 30 June 2012

## **JIANGLING MOTORS CORPORATION, LTD.**

### **FOR THE SIX MONTHS ENDED 30 JUNE 2012 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

(All amounts in RMB unless otherwise stated)

#### **2 Summary of significant accounting policies (continued)**

##### **2.7 Intangible assets (continued)**

###### **(2) Technical know-how**

Technical know-how referred to after-sale management model are initially recorded at costs incurred to acquire and are amortised over the estimated useful lives of 6 years.

###### **(3) Computer software**

Acquired computer software licences are capitalised on the basis of the costs incurred to acquire and bring to use the specific software. These costs are amortised over their estimated useful lives of 5 years.

##### **2.8 Impairment of non-financial assets**

Assets that have an indefinite useful life, for example goodwill, are not subject to amortisation and are tested annually for impairment. Assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). Non-financial assets other than goodwill that suffered an impairment are reviewed for possible reversal of the impairment at each reporting date.

##### **2.9 Financial assets**

###### **(1) Classification**

The Group classifies its financial assets in the following categories: at fair value through profit or loss, loans and receivables, held-to-maturity financial assets and available-for-sale. The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of its financial assets at initial recognition. As at 30 June 2012, the Group only has loans and receivables which comprise 'trade and other receivables' and 'cash and cash equivalents' in the statement of financial position (Notes 2.14 and 2.15).

###### **(a) Financial assets at fair value through profit or loss**

Financial assets at fair value through profit or loss are financial assets held for trading. A financial asset is classified in this category if acquired principally for the purpose of selling in the short term. Derivatives are also categorised as held for trading unless they are designated as hedges. Assets in this category are classified as current assets if expected to be settled within 12 months; otherwise, they are classified as non-current.

###### **(b) Loans and receivables**

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for the amounts that are settled or expected to be settled more than 12 months after the end of the reporting period. These are classified as non-current assets.

## JIANGLING MOTORS CORPORATION, LTD.

### FOR THE SIX MONTHS ENDED 30 JUNE 2012 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(All amounts in RMB unless otherwise stated)

#### 2 Summary of significant accounting policies (continued)

##### 2.9 Financial assets (continued)

###### (1) Classification (continued)

###### (c) Held-to-maturity financial assets

Held-to-maturity financial assets are non-derivative financial assets with fixed or determinable payments and fixed maturities that the Group's management has the positive intention and ability to hold to maturity. If the Group were to sell other than an insignificant amount of held-to-maturity financial assets, the whole category would be tainted and reclassified as available-for-sale. Held-to-maturity financial assets are included in non-current assets, except for those with maturities less than 12 months from the end of the reporting period, which are classified as current assets.

###### (d) Available-for-sale financial assets

Available-for-sale financial assets are non-derivatives that are either designated in this category or not classified in any of the other categories. They are included in non-current assets unless the investment matures or management intends to dispose of it within 12 months of the end of the reporting period.

###### (2) Recognition and measurement

Regular way purchases and sales of financial assets are recognised on the trade-date – the date on which the Group commits to purchase or sell the asset. Investments are initially recognised at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss. Financial assets carried at fair value through profit or loss are initially recognised at fair value, and transaction costs are expensed in profit or loss. Financial assets are derecognised when the rights to receive cash flows from the investments have expired or have been transferred and the Group has transferred substantially all risks and rewards of ownership. Available-for-sale financial assets and financial assets at fair value through profit or loss are subsequently carried at fair value. Loans and receivables and held-to-maturity financial assets are subsequently carried at amortised cost using the effective interest method.

Gains or losses arising from changes in the fair value of the 'financial assets at fair value through profit or loss' category are presented in profit or loss within 'other income/(expense) – net' in the period in which they arise. Dividend income from financial assets at fair value through profit or loss is recognised in profit or loss as part of other income when the Group's right to receive payments is established.

Changes in the fair value of monetary and non-monetary securities classified as available-for-sale are recognised in other comprehensive income.

When securities classified as available-for-sale are sold or impaired, the accumulated fair value adjustments recognised in equity are included in profit or loss as 'gains and losses from investment securities'.

Interest on available-for-sale securities calculated using the effective interest method is recognised in profit or loss as part of other income. Dividends on available-for-sale equity instruments are recognised in profit or loss as part of other income when the Group's right to receive payments is established.

## **JIANGLING MOTORS CORPORATION, LTD.**

### **FOR THE SIX MONTHS ENDED 30 JUNE 2012 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

(All amounts in RMB unless otherwise stated)

## **2 Summary of significant accounting policies (continued)**

### **2.10 Offsetting financial instruments**

Financial assets and liabilities are offset and the net amount reported in the statement of financial position when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis or realise the asset and settle the liability simultaneously.

### **2.11 Impairment of financial assets**

#### **(1) Assets carried at amortised cost**

The Group assesses at the end of each reporting period whether there is objective evidence that a financial asset or group of financial assets is impaired. A financial asset or a group of financial assets is impaired and impairment losses are incurred only if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.

Evidence of impairment may include indications that the debtors or a group of debtors is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganisation, and where observable data indicate that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

For loans and receivables category, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced and the amount of the loss is recognised in profit or loss. If a loan or held-to-maturity investment has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract. As a practical expedient, the Group may measure impairment on the basis of an instrument's fair value using an observable market price.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised (such as an improvement in the debtor's credit rating), the reversal of the previously recognised impairment loss is recognised in profit or loss.

## **JIANGLING MOTORS CORPORATION, LTD.**

### **FOR THE SIX MONTHS ENDED 30 JUNE 2012 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

(All amounts in RMB unless otherwise stated)

## **2 Summary of significant accounting policies (continued)**

### **2.11 Impairment of financial assets (continued)**

#### **(2) Assets classified as available-for-sale**

The Group assesses at the end of each reporting period whether there is objective evidence that a financial asset or a group of financial assets is impaired. For debt securities, the Group uses the criteria refer to (1) above. In the case of equity investments classified as available-for-sale, a significant or prolonged decline in the fair value of the security below its cost is also evidence that the assets are impaired. If any such evidence exists for available-for-sale financial assets, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in profit or loss – is removed from equity and recognised in the separate consolidated profit or loss. Impairment losses recognised in the separate consolidated profit or loss on equity instruments are not reversed through the separate consolidated profit or loss. If, in a subsequent period, the fair value of a debt instrument classified as available-for-sale increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in profit or loss, the impairment loss is reversed through the separate consolidated profit or loss.

Impairment testing of the investments in subsidiaries or associates is required upon receiving dividends from these investments if the dividend exceeds the total comprehensive income of the subsidiary or associate in the period the dividend is declared or if the carrying amount of the investment in the separate financial statements exceeds the carrying amount in the consolidated financial statements of the investee's net assets including goodwill.

### **2.12 Derivative financial instruments and hedging activities**

Derivatives are initially recognised at fair value on the date a derivative contract is entered into and are subsequently re-measured at their fair value. The method of recognising the resulting gain or loss depends on whether the derivative is designated as a hedging instrument, and if so, the nature of the item being hedged. The Group has no derivative instruments that qualifying for hedge accounting. Changes in the fair value of any derivative instruments that do not qualify for hedge accounting are recognised immediately in profit or loss.

### **2.13 Inventories**

Inventories are stated at the lower of cost and net realisable value. Cost is determined using the weighted average cost method. The cost of finished goods and work in progress comprises raw materials, direct labour, other direct costs and related production overheads (based on normal operating capacity). It excludes borrowing costs. Net realisable value is the estimated selling prices in the ordinary course of business, less applicable variable distribution costs.

### **2.14 Trade and other receivables**

Trade receivables are amounts due from customers for merchandise sold or services performed in the ordinary course of business. If collection of trade and other receivables is expected in one year or less (or in the normal operating cycle of the business if longer), they are classified as current assets. If not, they are presented as non-current assets.

Trade and other receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment.



## **JIANGLING MOTORS CORPORATION, LTD.**

### **FOR THE SIX MONTHS ENDED 30 JUNE 2012 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

(All amounts in RMB unless otherwise stated)

#### **2 Summary of significant accounting policies (continued)**

##### **2.15 Cash and cash equivalents**

In the consolidated statement of cash flows, cash and cash equivalents includes cash in hand, deposits held at call with banks, other short-term highly liquid investments with original maturities of three months or less, and bank overdrafts.

##### **2.16 Share capital**

Share capital consists of "A" and "B" shares.

Incremental costs directly attributable to the issue of new shares are shown in equity as a deduction, net of tax, from the proceeds.

##### **2.17 Trade payables**

Trade payables are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Accounts payable are classified as current liabilities if payment is due within one year or less (or in the normal operating cycle of the business if longer). If not, they are presented as non-current liabilities.

Trade payables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method.

##### **2.18 Borrowings**

Borrowings are recognised initially at fair value, net of transaction costs incurred. Borrowings are subsequently carried at amortised cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognised in profit or loss over the period of the borrowings using the effective interest method.

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the end of the report period.

##### **2.19 Borrowing costs**

General and specific borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale.

Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation.

All other borrowing costs are recognised in profit or loss in the period in which they are incurred.

## **JIANGLING MOTORS CORPORATION, LTD.**

### **FOR THE SIX MONTHS ENDED 30 JUNE 2012 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

(All amounts in RMB unless otherwise stated)

#### **2 Summary of significant accounting policies (continued)**

##### **2.20 Current and deferred income tax**

The tax expense for the period comprises current and deferred tax. Tax is recognised in profit or loss, except to the extent that it relates to items recognised in other comprehensive income or directly in equity. In this case the tax is also recognised in other comprehensive income or directly in equity, respectively.

###### **(1) Current income tax**

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the balance sheet date in the PRC. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

###### **(2) Deferred income tax**

Deferred income tax is recognised, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. However, deferred tax liabilities are not recognised if they arise from the initial recognition of goodwill, the deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantively enacted by the balance sheet date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

Deferred income tax assets are recognised only to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

Deferred income tax is provided on temporary differences arising on investments in subsidiaries and associates, except for deferred income tax liability where the timing of the reversal of the temporary difference is controlled by the Group and it is probable that the temporary difference will not reverse in the foreseeable future.

###### **(3) Offsetting**

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income taxes assets and liabilities relate to income taxes levied by the same taxation authority on either the taxable entity or different taxable entities where there is an intention to settle the balances on a net basis.

##### **2.21 Employee benefits**

###### **(1) Pension obligations**

The Group contributes on a monthly basis to a defined contribution retirement scheme managed by the PRC government. The contribution to the scheme is charged to profit or loss as and when incurred. The Group's obligations are determined at a certain percentage of the salaries of the employees.

## JIANGLING MOTORS CORPORATION, LTD.

### FOR THE SIX MONTHS ENDED 30 JUNE 2012 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(All amounts in RMB unless otherwise stated)

#### 2 Summary of significant accounting policies (continued)

##### 2.21 Employee benefits (continued)

###### (1) Pension obligations (continued)

In addition, the Group provides supplementary pension subsidies to certain qualified employees. Such supplementary pension subsidies are considered as under defined benefit plans. The liability recognised in the statement of financial position in respect of these defined benefit plans is the present value of the defined benefit obligation at the balance sheet date less the fair value of plan assets, together with adjustments for unrecognised actuarial gains or losses and past service cost. The defined benefit obligation is calculated annually by independent actuaries using the projected unit credit method. The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows according to the terms of the related pension liability. Actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions are charged or credited to profit or loss in the period in which they arise.

###### (2) Housing fund and other benefits

The Group's full-time employees are entitled to participate in a state-sponsored housing fund. The fund can be used by the employees for the purchase of apartment accommodation, or may be withdrawn upon their retirement. The Group is required to make annual contributions to the state-sponsored housing fund equivalent to a certain percentage of the employees' salaries.

###### (3) Bonus entitlement

The expected cost of bonus payments is recognised as a liability when the Group has a present legal or constructive obligation as a result of services rendered by employees and a reliable estimate of the obligation can be made. Liabilities for bonus are expected to be settled within twelve months and are measured at the amounts expected to be paid when they are settled.

##### 2.22 Provisions

Provisions, mainly warranty costs, are recognised when: the Group has a present legal or constructive obligation as a result of past events; it is probable that an outflow of resources will be required to settle the obligation; and the amount has been reliably estimated. Provisions are not recognised for future operating losses.

Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognised even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to passage of time is recognised as interest expense.

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## **2 Summary of significant accounting policies (continued)**

### **2.23 Revenue recognition**

Revenue is measured at the fair value of the consideration received or receivable, and represents amounts receivable for goods supplied, stated net of discounts returns and value added taxes. The Group recognises revenue when the amount of revenue can be reliably measured; when it is probable that future economic benefits will flow to the entity; and when specific criteria have been met for each of the Group's activities, as described below. The Group bases its estimates of return on historical results, taking into consideration the type of customer, the type of transaction and the specifics of each arrangement.

#### **(1) Sales of goods**

Revenue from the sale of goods is recognised when significant risks and rewards of ownership of the goods are transferred to the customer, the customer has accepted the products and collectability of the related receivables is reasonably assured.

#### **(2) Interest income**

Interest income is recognised on a time-proportion basis, taking account of the principal outstanding and the effective rate over the period to maturity, when it is determined that such income will accrue to the Group.

#### **(3) Rental income**

Rental income is recognised on a straight-line basis over the period of the rental contracts.

### **2.24 Leases**

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged to profit or loss on a straight-line basis over the period of the lease.

### **2.25 Dividend distribution**

Dividend distribution to the Company's shareholders is recognised as a liability in the Group's financial statements in the period in which the dividends are approved by the Company's shareholders.

### **2.26 Government grants**

Grants from the government are recognised at their fair value where there is a reasonable assurance that the grant will be received and the Group will comply with all attached conditions.

Government grants relating to costs are deferred and recognised in profit or loss over the period necessary to match them with the costs they are intended to compensate. Government grants not relating to future costs are recognised on receipt basis.

Government grants relating to the purchase of property, plant and equipment are included in non-current liabilities as deferred income and are credited to profit or loss on a straight line basis over the expected lives of the related assets.

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#### 3 Financial risk management

##### 3.1 Financial risk factors

The Group's activities expose it to a variety of financial risks: market risk (including foreign exchange risk and interest rate risk), credit risk and liquidity risk. The Group's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Group's financial performance.

Risk management is carried out by Finance Department under policies approved by the Board of Directors.

##### (1) Market risk

###### (a) Foreign exchange risk

The Company operates domestically and is exposed to foreign exchange risk arising from various currency exposures, primarily with respect to other payables dominated in U.S.dollar ("USD").

Management has set up a policy to require the Company to manage their foreign exchange risk against their functional currency. Foreign exchange risk arises when future commercial transactions or recognised assets or liabilities are denominated in a currency that is not the Company's functional currency.

As at 30 June 2012, if RMB had strengthened/weakened by 10% against USD with all other variable held constant, the Group's net profit for the six months ended 30 June 2012 would have been approximately RMB5,211,000 higher/lower.

###### (b) Interest rate risk

The Group's income and operating cash flows are substantially independent of changes in market interest rates. As at 30 June 2012, a large portion of its bank deposits and all of its borrowings were at fixed rate. The Group has not used any interest rate swaps to hedge its exposure to interest rate risk.

As at 30 June 2012, if the interest rate of the Group's bank deposits had been increased/decreased by 10% and all other variables were held constant, the Group's net profit for the six months ended 30 June 2012 would increase/decrease by approximately RMB7,384,000.

##### (2) Credit risk

The Group's maximum exposure to credit risk in relation to financial assets is the carrying amounts of cash and cash equivalents and trade and other receivables.

As at 30 June 2012, the Group had cash deposits of approximately 194,847,000 (2011: RMB182,049,000) placed with Jiangling Motor Group Finance Company ("JMCF"), which is a non-bank financial institution and a subsidiary of JMCG (Note 12). The Group's other bank deposits are deposited in state-owned banks or other listed banks. Management believes all these financial institutions have high credit quality without significant credit risk.

# JIANGLING MOTORS CORPORATION, LTD.

## FOR THE SIX MONTHS ENDED 30 JUNE 2012 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(All amounts in RMB unless otherwise stated)

### 3 Financial risk management (continued)

#### 3.1 Financial risk factors (continued)

##### (2) Credit risk (continued)

All the Group's trade and other receivables have no collateral. However, the Group has policies in place to ensure that sales are made to customers with appropriate credit history and the Group performs periodic credit evaluations of its customers. The Group assesses the credit quality of each customer by taking into account its financial position, past experience and other factors. Credit limit and terms are reviewed on periodic basis, and the financial department is responsible for such monitoring procedures. In determining whether allowance for bad and doubtful debts is required, the Group takes into consideration the aging status and the likelihood of collection. In this regards, the directors of the Company are satisfied that the risks is minimal as all customers are existing ones or related parties and have no default in the past and adequate allowance for doubtful debts, if any, has been made in the financial statements after assessing the collectability of individual debts. Further quantitative disclosures in respect of the impairment of trade and other receivables are set out in Note 11.

##### (3) Liquidity risk

Cash flow forecasting is performed in the operating entities of the Group in and aggregated by Finance Department. Finance Department monitors rolling forecasts of the Group's liquidity requirements to ensure it has sufficient cash to meet operational needs while maintaining sufficient headroom on its undrawn committed borrowing facilities (Note 15) at all times so that the Group does not breach borrowing limits or covenants (where applicable) on any of its borrowing facilities.

The table below analyses the Group's financial liabilities into relevant maturity groupings based on the remaining period at the balance sheet date to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows.

	Less than 1 year RMB '000	Between 1 and 2 years RMB '000	Between 2 and 5 years RMB '000	Over 5 years RMB '000
<b>At 30 June 2012</b>				
Bank borrowings				
- Principals	414	414	1,243	4,349
- Interests	95	88	228	359
Trade and other payables	3,909,990	-	-	-
Financial liabilities held for trading	23	-	-	-
	<u>3,910,522</u>	<u>502</u>	<u>1,471</u>	<u>4,708</u>
<b>At 31 December 2011</b>				
Bank borrowings				
- Principals	413	413	1,237	4,539
- Interests	97	91	237	391
Trade and other payables	3,814,531	-	-	-
Financial liabilities held for trading	6,696	-	-	-
	<u>3,821,737</u>	<u>504</u>	<u>1,474</u>	<u>4,930</u>

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### 3 Financial risk management (continued)

#### 3.2 Capital risk management

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital.

In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares or sell assets to reduce debt.

Consistent with others in the industry, the Group monitors capital on the basis of the gearing ratio. This ratio is calculated as borrowings divided by total capital. Total capital is calculated as equity, as shown in the consolidated statement of financial position, plus borrowings. The Group aims to maintain the gearing ratio at a reasonable level.

The gearing ratios at 30 June 2012 and 31 December 2011 were as follows:

	<u>30 June 2012</u> RMB'000	<u>31 December 2011</u> RMB'000
Total borrowings	6,420	6,602
Total equity	7,539,043	7,427,120
Total capital	<u>7,545,463</u>	<u>7,433,722</u>
Gearing ratio	<u>0.09%</u>	<u>0.09%</u>

#### 3.3 Fair value estimation

The financial liabilities held for trading are forward exchange contracts and are not traded in an active market. The fair value is determined by using valuation techniques which maximised the use of observable market data where it is available and rely as little as possible on entity specific estimates. The different levels have been defined as follows:

- Quoted prices (unadjusted) in active markets for identical assets or liabilities (level 1).
- Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices) (level 2).
- Inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs) (level 3).

Since all significant inputs required to fair value the instrument are observable, the financial liabilities held for trading belong to level 2.

The carrying amounts of the Group's financial assets including cash and cash equivalents, trade and other receivables and financial liabilities including trade and other payables, short-term borrowings, approximate their fair values due to their short maturities. The face values less any estimated credit adjustments for financial assets and liabilities with a maturity of less than one year are assumed to approximate their fair values.

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#### **3 Financial risk management (continued)**

##### **3.3 Fair value estimation (continued)**

In assessing the fair value of non-traded financial instruments, the Group uses a variety of methods and makes assumptions that are based on market conditions existing at the balance sheet date. The fair value of financial liabilities for disclosure purposes is estimated by discounting the future contractual cash flows at the current market interest rate available to the Group for similar financial instruments.

#### **4 Critical accounting estimates and judgements**

##### **(1) Provisions**

The Group provides warranties on automobile and undertakes to repair or replace items that fail to perform satisfactorily based on certain pre-determined conditions. Management estimates the related warranty claims based on historical warranty claim information including level of repairs and returns as well as recent trends that might suggest that past cost information may differ from future claims.

Factors that could impact the estimated claim information include the success of the Group's productivity and quality controls, as well as parts and labour costs. Any increase or decrease in the provision would affect profit or loss in future years.

##### **(2) Pension benefits**

The present value of the pension obligations depend on a number of factors that are determined on an actuarial basis using a number of assumptions. Any changes in these assumptions will impact the carrying amount of pension obligations.

The Group determines the appropriate discount rate at the end of each year. This is the interest rate that should be used to determine the present value of estimated future cash outflows expected to be required to settle the pension obligations. In determining the appropriate discount rate, the Group considers the interest rates of government bonds that are denominated in the currency in which the benefits will be paid, and that have terms to maturity approximating the terms of the related pension liability.

Other key assumptions for pension obligations are based in part on current market conditions. Additional information is disclosed in Note 16.



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#### **4 Critical accounting estimates and judgements (continued)**

##### **(3) Taxation**

The Group is subject to various taxes in the PRC, including corporate income tax, value added tax and consumption tax. Significant judgment is required in determining the provision for these taxes. There are many transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business. The Group recognises liabilities for anticipated tax issues based on estimates of whether additional taxes will be due. Where the final tax outcome of these matters is different from amounts that were initially recorded, such differences will impact the tax provisions in the period such determination is made.

Deferred income tax assets relating to certain temporary differences are recognised as management considers it is probable that future taxable profit will be available against which the temporary differences can be utilised. Where the expectation is different from the original estimate, such differences will impact the recognition of deferred tax assets and tax in the periods in which such estimate is changed.

As at 30 June 2012, the Group has deferred tax assets in the amount of approximately RMB170,757,000. To the extent that it is probable that taxable profit will be available against which the deductible temporary differences will be utilised, deferred tax assets are recognised mainly for temporary differences arising from accrued expenses and retirement benefit obligations.

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**5 Property, plant and equipment**

	<b>Buildings</b>	<b>Plant and Mouldsry</b>	<b>Motor Vehicles</b>	<b>Moulds</b>	<b>Electronic and other equipments</b>	<b>Assets under constructions</b>	<b>Total</b>
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
<b>At 1 January 2011</b>							
Cost	785,766	2,263,629	89,591	1,109,079	1,229,483	372,239	5,849,787
Accumulated depreciation and impairment	(197,705)	(1,401,551)	(44,498)	(798,608)	(776,209)	(692)	(3,219,263)
Net book amount	588,061	862,078	45,093	310,471	453,274	371,547	2,630,524
<b>Year ended 31 December 2011</b>							
Opening net book amount	588,061	862,078	45,093	310,471	453,274	371,547	2,630,524
Additions	-	-	-	-	1,089	973,422	974,511
Transfers	22,638	69,401	22,798	104,120	131,016	(349,973)	-
Disposals	(2,026)	(543)	(1,030)	(233)	(780)	-	(4,612)
Other deduction	-	-	-	-	-	(3,270)	(3,270)
Impairment charge	-	(1,167)	(73)	(171)	(724)	-	(2,135)
Depreciation charge	(19,205)	(103,562)	(9,336)	(90,703)	(100,522)	-	(323,328)
Closing net book amount	589,468	826,207	57,452	323,484	483,353	991,726	3,271,690
<b>At 31 December 2011</b>							
Cost	804,670	2,324,487	107,433	1,206,775	1,335,013	992,418	6,770,796
Accumulated depreciation and impairment	(215,202)	(1,498,280)	(49,981)	(883,291)	(851,660)	(692)	(3,499,106)
Net book amount	589,468	826,207	57,452	323,484	483,353	991,726	3,271,690
<b>Six month ended 30 June 2012</b>							
Opening net book amount	589,468	826,207	57,452	323,484	483,353	991,726	3,271,690
Additions	-	-	-	-	-	664,225	664,225
Transfers	616	76,308	3,648	17,035	30,202	(127,809)	-
Disposals	-	(371)	(762)	-	(426)	-	(1,559)
Other deduction	-	-	-	-	-	(2,629)	(2,629)
Depreciation charge (Note 21,28)	(9,831)	(53,376)	(5,840)	(56,225)	(54,192)	-	(179,464)
Closing net book amount	580,253	848,768	54,498	284,294	458,937	1,525,513	3,752,263
<b>At 30 June 2012</b>							
Cost	805,286	2,395,365	108,707	1,223,810	1,356,752	1,526,205	7,416,125
Accumulated depreciation and impairment	(225,033)	(1,546,597)	(54,209)	(939,516)	(897,815)	(692)	(3,663,862)
Net book amount	580,253	848,768	54,498	284,294	458,937	1,525,513	3,752,263

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**5 Property, plant and equipment (continued)**

For the six months ended 30 June 2012, depreciation expense of approximately RMB160,910,000 (the six months ended 30 June 2011: RMB138,373,000) has been charged in cost of sales, RMB684,000 (the six months ended 30 June 2011: 637,000) in distribution costs and RMB17,870,000 (the six months ended 30 June 2011: RMB16,860,000) in administrative expenses.

Lease rental expenses amounting to RMB2,272,000 (the six months ended 30 June 2011: RMB1,703,000) relating to the lease of property are included in profit or loss.

**6 Lease prepayment**

Lease prepayment represents the Group's interests in land which are held on leases of 50 years. The movement is as follows:

	<u>30 June 2012</u>	<u>31 December 2011</u>
	RMB'000	RMB'000
Opening net book amount	271,347	277,870
Amortisation charge (Note 21,28)	<u>(3,262)</u>	<u>(6,523)</u>
Closing net book amount	<u>268,085</u>	<u>271,347</u>
Cost	329,863	329,863
Accumulated amortisation	<u>(61,778)</u>	<u>(58,516)</u>
Net book amount	<u>268,085</u>	<u>271,347</u>

All amortisation expense was charged in administrative expenses.

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**7 Intangible assets**

	After-sale management model	Software	Other	Total
	RMB'000	RMB'000	RMB'000	RMB'000
<b>Year ended 31 December 2011</b>				
Opening net book amount	10,787	20,050	465	31,302
Addition	-	3,269	-	3,269
Impairment charge	-	(97)	-	(97)
Amortisation charge	(6,163)	(6,090)	(267)	(12,520)
Closing net book amount	<u>4,624</u>	<u>17,132</u>	<u>198</u>	<u>21,954</u>
<b>At 31 December 2011</b>				
Cost	36,978	33,078	1,600	71,656
Accumulated amortisation	(32,354)	(15,946)	(1,402)	(49,702)
Net book amount	<u>4,624</u>	<u>17,132</u>	<u>198</u>	<u>21,954</u>
<b>Six month ended 30 June 2012</b>				
Opening net book amount	4,624	17,132	198	21,954
Addition	-	2,616	-	2,616
Amortisation charge (Note 21, 28)	(3,083)	(3,395)	(132)	(6,610)
Closing net book amount	<u>1,541</u>	<u>16,353</u>	<u>66</u>	<u>17,960</u>
<b>At 30 June 2012</b>				
Cost	36,978	35,694	1,600	74,272
Accumulated amortisation	(35,437)	(19,341)	(1,534)	(56,312)
Net book amount	<u>1,541</u>	<u>16,353</u>	<u>66</u>	<u>17,960</u>

For the six months ended 30 June 2012, amortisation expense of approximately RMB6,525,000 (the six months ended 30 June 2011: RMB6,112,000) was charged in administrative expenses and RMB85,000 in distribution costs (the six months ended 30 June 2011: RMB117,000).

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**8 Investments in associate**

(a) Movement of investment in associate is set out as follows:

	<u>30 June 2012</u>	<u>31 December 2011</u>
	RMB'000	RMB'000
At beginning of the year	17,851	17,928
Share of profit (Note 28)	3,412	7,032
Dividends received	-	(7,109)
At end of the period	<u>21,263</u>	<u>17,851</u>

In March 1996, the Company entered into a Sino-foreign equity joint venture agreement with Visteon International Holding Co., Ltd. ("Visteon") to form Jiangxi Fuchang Climate Systems Co., Ltd. ("Jiangxi Fuchang"), with operating period of 30 years, and its principal activities include manufacture and sale of air-conditioners and spare parts for motor vehicles. On 1 June 2008, Visteon transferred its equity interests of Jiangxi Fuchang to Visteon Motor Climate Control Holding (Hong Kong) Co., Ltd. ("Visteon Hong Kong"), a subsidiary of Visteon, and Jiangxi Fuchang was renamed as Visteon Climate Control (Nanchang) Co., Ltd. ("Visteon Climate Control Nanchang").

Visteon Climate Control Nanchang has a registered capital of USD5.6 million, of which Visteon Hong Kong has 80.85% interest and the Company has the remaining 19.15% interest. As the Company has 2 out of 6 seats in the board, Visteon Climate Control Nanchang is regarded as a 19.15% owned associate of the Company.

(b) The Group's share of assets, liabilities, revenue and results of its associates are as follows:

	<u>30 June 2012</u>	<u>31 December 2011</u>
	RMB'000	RMB'000
Total assets	186,510	28,969
Total liabilities	(75,475)	(11,118)
Net assets	<u>111,035</u>	<u>17,851</u>

	<u>Six months ended 30 June</u>	
	<u>2012</u>	<u>2011</u>
	RMB'000	RMB'000
Revenue	137,195	121,601
Profit for the period	<u>17,819</u>	<u>16,857</u>

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**9 Deferred income tax assets**

Deferred income taxes are calculated in full on temporary differences under the liability method using applicable tax rate as stated in the following.

As the Company is qualified as a high-tech enterprise and approved by the relevant tax authorities in 2012, the Company is entitled to a preferential corporate income tax ("CIT") rate of 15% from 2012 to 2014.

According to the Notice of Enterprise Income Tax Rate Transition Regulation issued by the State Council of the PRC, Jiangling Isuzu Motor Corporation, Ltd. ("Jiangling Isuzu"), a subsidiary of the Company, applied 18% CIT rate in 2008, 20% in 2009, 22% in 2010, 24% in 2011 and 25% in 2012.

	<u>30 June 2012</u>	<u>31 December 2011</u>
	RMB'000	RMB'000
Deferred tax assets	171,243	252,707
Deferred tax liabilities	(486)	(2,525)
Deferred tax assets (net)	<u>170,757</u>	<u>250,182</u>

The gross movement on the deferred income tax account is as follows:

	<u>30 June 2012</u>	<u>31 December 2011</u>
	RMB'000	RMB'000
At beginning of the year	250,182	205,063
Credited to profit or loss (Note 25)	(79,425)	45,119
At end of the period	<u>170,757</u>	<u>250,182</u>

The movement in deferred income tax assets and liabilities during the year, without taking into consideration the offsetting of balances within the same tax jurisdiction, is as follows:

<b>Deferred tax assets</b>	Provision for	Retirement	Accrued	Others	Total
	impairment of a	benefits obligation	expenses		
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
At 1 January 2011	1,738	15,768	159,100	30,205	206,811
Credited/(charged) to profit or loss	1,633	(40)	35,412	8,891	45,896
At 31 December 2011	3,371	15,728	194,512	39,096	252,707
Credited/(charged) to profit or loss	(1,269)	(3,042)	(64,387)	(12,766)	(81,464)
At 30 June 2012	<u>2,102</u>	<u>12,686</u>	<u>130,125</u>	<u>26,330</u>	<u>171,243</u>

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**9 Deferred income tax assets (continued)**

<b>Deferred tax liabilities</b>	<u>Depreciation of property, plant and equipment</u> RMB'000
At 1 January 2011	(1,748)
Charged to profit or loss	(777)
At 31 December 2011	<u>(2,525)</u>
Charged to profit or loss	2,039
At 30 June 2012	<u>(486)</u>

The amounts shown in the statement of financial position include the followings:

	<u>30 June 2012</u> RMB'000	<u>31 December 2011</u> RMB'000
Deferred tax assets:		
–Deferred tax asset to be recovered after more than 12 months	12,248	14,288
–Deferred tax asset to be recovered within 12 months	158,995	238,419
	<u>171,243</u>	<u>252,707</u>
	<u>30 June 2012</u> RMB'000	<u>31 December 2011</u> RMB'000
Deferred tax liabilities:		
–Deferred tax liability to be recovered within 12 months	<u>(486)</u>	<u>(2,525)</u>

**10 Inventories**

	<u>30 June 2012</u> RMB'000	<u>31 December 2011</u> RMB'000
Raw materials	776,640	693,244
Work in progress	108,671	132,479
Finished goods	383,848	314,530
	<u>1,269,159</u>	<u>1,140,253</u>

For the six months ended 30 June 2012, the cost of inventories recognised as expenses and included in cost of sales amounted to approximately RMB5,886,675,000 ( the six months ended 30 June 2011: RMB6,602,012,000 ).

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**11 Trade and other receivables**

	<u>30 June 2012</u>	<u>31 December 2011</u>
	RMB'000	RMB'000
Trade receivables	312,905	310,156
Less: Provision for impairment of trade receivables	<u>(1,564)</u>	<u>(1,551)</u>
Trade receivables – net	<u>311,341</u>	<u>308,605</u>
Notes receivables	896,108	933,794
Other receivables	23,013	15,513
Less: Provision for impairment of other receivables	<u>(118)</u>	<u>(81)</u>
Other receivables – net	<u>22,895</u>	<u>15,432</u>
Prepayments	196,520	195,025
Interest receivables	36,663	8,745
	<u>1,463,527</u>	<u>1,461,601</u>

Refer to Note 31 for details of receivables from related parties. The carrying amounts of the Group's trade and other receivables are denominated in the following currencies:

	<u>30 June 2012</u>	<u>31 December 2011</u>
	RMB'000	RMB'000
RMB	1,460,217	1,461,601
EUR	3,310	-
	<u>1,463,527</u>	<u>1,461,601</u>

The carrying amounts of trade and other receivables approximate their fair values.

As at 30 June 2012, trade and other receivables of approximately RMB1,682,000 (2011: RMB1,632,000) were impaired and provided for.

Movement on the provision for impairment of trade and other receivables is as follows:

	<u>30 June 2012</u>	<u>31 December 2011</u>
	RMB'000	RMB'000
At beginning of the year	(1,632)	(898)
Provision for receivables impairment (Note 21,28)	<u>(50)</u>	<u>(734)</u>
At end of the period	<u>(1,682)</u>	<u>(1,632)</u>

As at 30 June 2012, trade receivables of approximately RMB5,489,000 (2011: RMB4,897,000) were past due but not impaired. These balances related to a number of independent customers for whom there was no recent history of default. The aging analysis of these trade receivables based on past due date is as below:



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#### 11 Trade and other receivables (continued)

	<u>30 June 2012</u>	<u>31 December 2011</u>
	RMB'000	RMB'000
Up to three months	5,289	3,738
three months to six months	200	1,159
	<u>5,489</u>	<u>4,897</u>

The maximum exposure to credit risk at the reporting date is the carrying value of each class of receivable mentioned above. The Group does not hold any collateral as security.

#### 12 Cash and cash equivalents

	<u>30 June 2012</u>	<u>31 December 2011</u>
	RMB'000	RMB'000
Cash at bank and in hand	999,454	647,279
Short-term bank deposits (a)	4,693,214	4,737,698
	<u>5,692,668</u>	<u>5,384,977</u>

As at 30 June 2012, the Group had cash deposits of approximately RMB194,847,000 (2011: RMB182,049,000) placed with JMCF (Note 31 (iii)). The interest rates range from 0.36% to 1.53% per annum (2011: 0.36% to 1.49%). JMCF, a non-bank financial institution, is a subsidiary of JMCG.

- (a) Short-term bank deposits can be withdrawn at the discretion of the Group without any restriction.

#### 13 Share capital

	Number of shares (thousands)	Tradable shares			Total RMB'000
		"A" shares		"B" shares	
		Restricted RMB'000	Non-restricted RMB'000	RMB'000	
<b>Year ended 31 December 2011</b>					
Balance at 1 January 2011	863,214	2,906	516,308	344,000	863,214
Transfer	-	(124)	124	-	-
Balance at 31 December 2011	<u>863,214</u>	<u>2,782</u>	<u>516,432</u>	<u>344,000</u>	<u>863,214</u>
<b>The six months ended 30 June 2012</b>					
Balance at 1 January 2012	863,214	2,782	516,432	344,000	863,214
Transfer	-	-	-	-	-
Balance at 30 June 2012	<u>863,214</u>	<u>2,782</u>	<u>516,432</u>	<u>344,000</u>	<u>863,214</u>

All the "A" and "B" shares are registered, issued and fully paid ordinary shares of RMB1 each.

All the "A" and "B" shares rank pari passu in all respects.

After implementation of the share reform scheme on 13 February 2006, all of the non-tradable A shares became tradable with conditions of 1-3 years restricted period. As at 30 June 2012, 2,782,000 shares were still restricted. In the first half of 2012, 30 restricted shares became non-restricted.

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**14 Other reserves**

	<b>Statutory surplus reserve fund (a)</b>	<b>Reserve fund</b>	<b>Others</b>	<b>Total</b>
	RMB'000	RMB'000	RMB'000	RMB'000
At 1 January 2012	431,607	18,627	7,416	457,650
- Profit appropriation	-	-	-	-
At 30 June 2012	<u>431,607</u>	<u>18,627</u>	<u>7,416</u>	<u>457,650</u>

- (a) In accordance with the relevant laws and regulations in the PRC and Articles of Association of the Company, it is required to appropriate 10% of its annual net profit, after offsetting any prior years' losses as determined under the Accounting Standards for Business Enterprises in the PRC, to the statutory surplus reserve fund before distributing the net profit. When the balance of the statutory surplus reserve fund reaches 50% of the Company's share capital, any further appropriation is at the discretion of shareholders. The statutory surplus reserve fund can be used to offset prior years' losses, if any, and may be converted into share capital by issuing new shares to shareholders in proportion to their existing shareholders or by increasing the par value of the shares currently held by them. The fund is non-distributable except for liquidation situation.

As the balance of the statutory surplus reserve fund has reached 50% of the Company's share capital after the above appropriation, there are no further appropriations to the statutory surplus reserve fund for the six months ended 30 June 2012.

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**15 Borrowings**

	<u>30 June 2012</u>	<u>31 December 2011</u>
	RMB'000	RMB'000
<b>Current</b>		
Bank borrowings		
- secured (a)	414	413
	<u>414</u>	<u>413</u>
<b>Non-current</b>		
Bank borrowings - secured (a)	6,006	6,189
	<u>6,006</u>	<u>6,189</u>
<b>Total borrowings</b>	<u>6,420</u>	<u>6,602</u>

- (a) Bank borrowings of USD1,015,000 (equivalent to approximately RMB6,420,000) (2011: USD1,048,000, equivalent to approximately RMB6,602,000) were guaranteed by JMCF (Note 31 (v)).

The interest rate of bank borrowings is 1.50% per annum (2011: 1.50%).

The fair value of borrowings approximates their carrying values.

The maturity of non-current borrowings is as follows:

	<u>30 June 2012</u>	<u>31 December 2011</u>
	RMB'000	RMB'000
Between 1 and 2 years	414	413
Between 2 and 5 years	1,243	1,237
Over 5 years	4,349	4,539
	<u>6,006</u>	<u>6,189</u>

The carrying amounts of the Group's borrowings are denominated in the following currencies:

	<u>30 June 2012</u>	<u>31 December 2011</u>
	RMB'000	RMB'000
USD	6,420	6,602
	<u>6,420</u>	<u>6,602</u>

The Group has the following undrawn borrowing facilities:

	<u>30 June 2012</u>	<u>31 December 2011</u>
	RMB'000	RMB'000
Fixed rate		
- Expiring within one year	1,682,570	1,347,325
- Expiring beyond one year	500,000	793,576
	<u>2,182,570</u>	<u>2,140,901</u>

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**16 Retirement benefits obligations**

The amount of early retirement and supplemental benefit obligations recognised in the statement of financial position is as follows:

	<u>30 June 2012</u>	<u>31 December 2011</u>
	RMB'000	RMB'000
Present value of defined benefits obligations		
Defined benefit obligations	56,315	65,405
Unrecognised past service cost	-	(2,493)
Liability on the statement of financial position	<u>56,315</u>	<u>62,912</u>

The movement of early retirement and supplemental benefit obligations for the six months ended 30 June 2012 is as follows:

	<u>30 June 2012</u>	<u>31 December 2011</u>
	RMB'000	RMB'000
At beginning of the year	62,912	66,657
For the year		
-Current service cost	-	340
-Interest cost	-	2,647
-Payment	(6,597)	(13,599)
-Past service cost	-	831
-Actuarial loss/(gain)	-	6,036
At end of the period	<u>56,315</u>	<u>62,912</u>
Current	10,714	10,714
Non-current	<u>45,601</u>	<u>52,198</u>
	<u>56,315</u>	<u>62,912</u>

The material actuarial assumptions used in valuing these obligations are as follows:

- (1) Discount rate adopted: 3.50% (2011: 3.50%)
- (2) The salary and supplemental benefits inflation rate of retiree, early-retiree and employee at post: 0% to 5% (2011: 0% to 5%)
- (3) Mortality: average life expectancy of residents in the PRC

Based on the assessment and IAS 19, the Group estimated that, at 30 June 2012, a provision of 56,315,000 is sufficient to cover all future retirement-related obligations.

Obligation in respect of retirement benefits of 56,315,000 is the present value of the unfunded obligations, of which the current portion amounting to RMB10,714,000 (2011: RMB10,714,000) has been included under current liabilities.

The sensitivity of the overall pension liability to changes in the weighted principal assumptions is:

	<b>Change in assumption</b>	<b>Impact on overall liability</b>
Discount rate	Increase/decrease by 0.5%	Decrease/increase by 3.91%/4.31%
Inflation rate	Increase/decrease by 0.5%	Increase/decrease by 1.37%/1.20%
Rate of mortality	Increase/decrease by 1 year	Decrease/increase by 0.75%/0.88%

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#### 17 Warranty provisions

The movement on the warranty provisions is as follows:

	<u>30 June 2012</u>	<u>31 December 2011</u>
	RMB'000	RMB'000
At beginning of the year	140,855	171,789
Charged for the period (Note 21)	89,775	96,155
Utilised during the period	<u>(74,198)</u>	<u>(127,089)</u>
At end of the period	<u>156,432</u>	<u>140,855</u>

The above represents the warranty costs for repairs and maintenance, which are estimated based on present after-sale service policies and prior years' experience on the incurrence of such cost. For the business motor vehicles the warranty period is the sooner of 2 years and 50,000 kilometres since the motor vehicles are sold to consumer, while for the SUV the warranty period is the sooner of 3 years and 60,000 kilometres since the motor vehicles are sold to consumer.

#### 18 Financial liabilities held for trading

	<u>30 June 2012</u>	<u>31 December 2011</u>
	RMB'000	RMB'000
Forward exchange contracts	<u>23</u>	<u>6,696</u>

#### 19 Trade and other payables

	<u>30 June 2012</u>	<u>31 December 2011</u>
	RMB'000	RMB'000
Trade payables	3,209,114	2,945,440
Payroll and welfare payable	121,316	153,311
Dividend payables	752,024	8,752
Other payables	<u>814,380</u>	<u>1,060,292</u>
	<u>4,896,834</u>	<u>4,167,795</u>

Refer to Note 31 for details of amount due to related parties.

#### 20 Revenue and segment information

The Group principally derives its turnover from the manufacture, assembly and sale of automobiles, related spare parts and components, and sales are made principally in the PRC. Revenue represents the total invoiced value of goods supplied to customers, net of value-added tax, returns and allowances.

Management has determined the operating segment based on the reports reviewed by the strategic executive committee that are used to make strategic decisions. The committee considers the business from the product perspective as all the Group's sales are made in the PRC. Since the Group principally derives its turnover from the sale of automobiles, the committee considers the automobile business as a whole in allocating resources and assessing performance. Accordingly, no segment information is presented.

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**21 Expenses by nature**

	<b>Six months ended 30 June</b>	
	<b>2012</b>	<b>2011</b>
	RMB'000	RMB'000
Changes in inventories of finished goods and work in progress	(44,352)	299,238
Raw materials and consumables used	5,931,027	6,302,774
Employee benefit expenses (Note 22)	496,559	457,706
Depreciation on PPE (Note 5,28)	179,464	155,870
Impairment charges of PPE (Note 5,28)	-	1,005
Repairs and maintenance expenditure on PPE	22,513	29,789
Research and development expenditure	219,523	208,618
Amortisation of lease prepayment (Note 6,28)	3,262	3,262
Amortisation of intangible assets (Note 7,28)	6,610	6,229
Write-down of inventories (Note 28)	1,205	7,521
Provision for receivables impairment (Note 11,28)	51	1,246
Provision of warranty (Note 17)	89,775	26,266
Others	612,154	256,559
Total cost of sales, distribution costs and administrative expenses	<u>7,517,791</u>	<u>7,756,083</u>

**22 Employee benefit expenses**

	<b>Six months ended 30 June</b>	
	<b>2012</b>	<b>2011</b>
	RMB'000	RMB'000
Wages and salaries	358,520	342,819
Social security costs	42,060	32,628
Pension costs – defined contribution plans	64,660	57,580
Others	31,319	24,679
	<u>496,559</u>	<u>457,706</u>

The employees of the Group participated in a retirement benefit plan organised by the municipal and provincial governments under which the Group was required to make defined contributions monthly to this plan.

In addition, the Group also paid certain pension subsidies to certain retired employees. In accordance with the Group's early retirement programs, the Group was also committed to make periodic benefit payments to certain early-retired employees until they reach their legal retirement ages.

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**23 Other income**

	<b>Six months ended 30 June</b>	
	<b>2012</b>	<b>2011</b>
	RMB'000	RMB'000
Government grants (a)	10,768	1,390
Others	(2,319)	(711)
	<u>8,449</u>	<u>679</u>

- (a) For the six months ended 30 June 2012, the Group received unconditional grants of approximately RMB10,768,000 mainly from the Government of Qinyunpu District, Nanchang City. Such amounts are not considered to be government grants relating to future cost or PPE and credited in profit or loss.

**24 Finance income and cost**

	<b>Six months ended 30 June</b>	
	<b>2012</b>	<b>2011</b>
	RMB'000	RMB'000
(a) Finance income		
Interest income on bank deposits	89,381	62,185
Interest income on credit sales	26,281	18,248
	<u>115,662</u>	<u>80,433</u>
(b) Finance cost		
Interest expense on bank loans	(209)	(339)
Bank charges	(299)	(231)
	<u>(508)</u>	<u>(570)</u>
Net finance income	<u>115,154</u>	<u>79,863</u>

**25 Taxation**

## (a) CIT

Refer to Note 9 for the Group applicable tax rates. For the six months ended 30 June 2012, the applicable CIT rates of the Company and its subsidiary are 15% and 25% respectively.

The amounts of income tax expense charged to profit or loss represented:

	<b>Six months ended 30 June</b>	
	<b>2012</b>	<b>2011</b>
	RMB'000	RMB'000
Current tax	(141,071)	(139,655)
Deferred tax (Note 9)	(79,425)	(48,454)
	<u>(220,496)</u>	<u>(188,109)</u>

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**25 Taxation (continued)**

## (a) CIT (continued)

The difference between the actual income tax charge in profit or loss and the amounts which result from applying the enacted tax rate to profit before income tax can be reconciled as follows:

	<b>Six months ended 30 June</b>	
	<b>2012</b>	<b>2011</b>
	RMB'000	RMB'000
Profit before tax	1,074,784	1,286,509
Tax calculated at a tax rate of 15% (2011: 15%)	(161,218)	(192,976)
Company which is subject to different tax rate	(8,871)	(11,170)
Tax concessions	86	257
Expense not deductible for tax purposes	(1,200)	(1,716)
Income not subject to tax	14,796	17,483
Effect of different tax rates applied for the periods in which the temporary differences are expected to reverse	(64,089)	13
Tax charge	<u>(220,496)</u>	<u>(188,109)</u>

## (b) Value-added tax ("VAT")

Output VAT is levied at a general rate of 17% on the selling price of goods. Input VAT paid on purchase of goods and equipment can be used to offset the output VAT to determine the net VAT payable.

## (c) Consumption Tax ("CT")

The Group's automobile sale is subject to CT at 5% on the selling price of goods.

**26 Earnings per share**

Basic earnings per share is calculated by dividing the profit attributable to equity holders of the Company by the weighted average number of ordinary shares in issue during the Six months ended 30 June 2012.

	<b>Six months ended 30 June</b>	
	<b>2012</b>	<b>2011</b>
Profit attributable to equity holders of the Company ('000)	838,898	1,075,018
Weighted average number of ordinary shares in issue (thousands)	863,214	863,214
Basic earnings per share	<u>0.97</u>	<u>1.25</u>

Diluted earnings per share equals to basic earnings per share as there were no dilutive potential ordinary shares outstanding during the Six months ended 30 June 2012.



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**27 Dividends**

A final dividend for 2011, amounting to a total dividend of RMB742,364,040 has been approved at the Shareholders' Meeting on 19 June 2012(RMB0.86 per share).

**28 Cash generated from operations**

	<b>Six months ended 30 June</b>	
	<b>2012</b>	<b>2011</b>
	RMB'000	RMB'000
Profit before tax	1,074,784	1,286,509
Depreciation (Note 5,21)	179,464	155,870
Amortisation of lease prepayment (Note 6,21)	3,262	3,262
Amortisation of intangible assets (Note 7,21)	6,610	6,229
Impairment charge of PPE (Note 5,21)	-	1,005
Provision for receivables impairment (Note11, 21)	51	1,246
Write-down of inventories (Note 21)	1,205	7,521
Loss on disposals of PPE	468	273
Finance cost (Note 24)	508	570
Finance income (Note 24)	(115,662)	(80,433)
Net foreign exchange transaction loss/ (gain)	1,211	(298)
Share of profit of associate (Note 8)	(3,412)	(3,229)
Investment income of held-to-maturity investments	-	(359)
Investment loss /(gain) of forward exchange contracts	6,651	(12)
Changes on fair value of forward exchange contracts	(6,673)	(180)
Changes in working capital:		
- (Increase)/Decrease in inventories	(132,123)	192,177
- Decrease/(Increase) in trade and other receivables	9,741	(638,539)
- Increase/(Decrease) in warranty provisions	15,577	(35,918)
- Increase/(Decrease) in trade and other payables	77,027	(565,536)
- Decrease in pensions and other retirement benefits	(6,597)	(7,399)
Cash generated from operations	<u>1,112,092</u>	<u>322,759</u>

In the cash flow statement, proceeds from disposal of property, plant and equipment comprise:

	<b>Six months ended 30 June</b>	
	<b>2012</b>	<b>2011</b>
	RMB'000	RMB'000
Net book amount	1,559	1,487
Loss on disposal of property, plant and equipment	(468)	(273)
Offset with trade and other payables	60	25
Proceeds from disposal of property, plant and equipment	<u>1,151</u>	<u>1,239</u>

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**29 Contingencies**

At 30 June 2012, the Group did not have any significant contingent liabilities.

**30 Commitments**

Capital commitments

Capital expenditure contracted for at the balance sheet date but not recognised in the financial statements are as follows:

	<u>30 June 2012</u>	<u>31 December 2011</u>
	RMB'000	RMB'000
Contracted but not provided for:		
Purchases of buildings, plant and machinery	<u>975,130</u>	<u>1,261,130</u>

**31 Related party transactions**

Related parties are those parties that have the ability to control the other party or exercise significant influence in making financial and operating decisions. Parties are also considered to be related if they are subject to common control.

Jiangling Motor Holdings Co. Ltd. ("JMHC"), which owns 41.03% of the Company's shares, and Ford, which owns 30% of the Company's shares, are major shareholders of the Company as at 30 June 2012. In addition, Chongqing Changan Automobile Corporation Ltd. ("Changan Auto") and JMCG hold 50% equity interest of JMHC, respectively.

The following is a summary of the significant transactions carried out between the Group, its associates, JMCG and its subsidiaries, Ford and its subsidiaries in the ordinary course of business during the six months ended 30 June 2012.

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#### 31 Related party transactions (continued)

For the six months ended 30 June 2012, related parties, other than the subsidiary, and their relationship with the Group are as follow:

Name of related Party	Relationship
JMCG	Shareholder of JMHC; the same Chairman as the Company
Ford Motor (China) Co., Ltd.	Subsidiary of Ford
Ford Motor Research & Engineering (Nanjing) Co., Ltd.	Subsidiary of Ford
Ford Global Technologies, LLC	Subsidiary of Ford
Ford Otosan Company	Subsidiary of Ford
Ford Motor Company of Australia Limited	Subsidiary of Ford
JMCG Interior Trim Factory	Subsidiary of JMCG
Jiangxi JMCG Industrial Co.	Subsidiary of JMCG
JMCG Property Management Co.	Subsidiary of JMCG
Jiangxi Jiangling Chassis Company	Subsidiary of JMCG
Jiangling Material Co.	Subsidiary of JMCG
Land Wind Sales Company	Subsidiary of JMHC
Nanchang JMCG Tianren Auto Component Co.	Subsidiary of JMHC
JMCG Import & Export Co., Ltd.	Subsidiary of JMCG
Nanchang Gear Co., Ltd.	Subsidiary of JMCG
Jiangling-Lear Interior Trim Factory	Subsidiary of JMCG
Nanchang Jiangling Hua Xiang Auto Components Co.	Subsidiary of JMCG
Jiangxi Specialty Vehicles Jiangling Motors Group Co., Ltd.	Subsidiary of JMCG
JMCF	Subsidiary of JMCG
Jiangling Metal Casting Co.	Subsidiary of JMCG
Jiangling Auto Component Co.	Subsidiary of JMCG
Jiangxi Jiangling Material Utilization Co., Ltd.	Subsidiary of JMCG
Jiangxi JMCG Shangrao Industrial Co.	Subsidiary of JMCG
JMCG Jiangxi Engineering Construction Co., Ltd.	Subsidiary of JMCG
Nanchang JMCG Xinchun Auto Component Co.	Subsidiary of JMCG
Jiangling New-power Auto manufacturing Co.	Subsidiary of JMCG
Jiangling Overseas Motors Sales&Service Co., Ltd.	Subsidiary of JMCG
Nanchang JMCG Shishun Auto Rental Co., Ltd.	Subsidiary of JMCG
Nanchang Lianda Machinery Co., Ltd.	Subsidiary of JMCG
Jiangxi JMCG Yichang Second-hand Motors Sales Co., Ltd.	Subsidiary of JMCG
Jiangxi Velff Engine Co., Ltd.	Subsidiary of JMCG
Nanchang JMCG Trading Co.	Subsidiary of JMCG
Nanchang JMCG Liancheng Auto Component Co.	Subsidiary of JMCG
JMCG Jingma Motors Co., Ltd.	Subsidiary of JMCG
Nanchang JMCG Printing Plant Co.	Associate of JMCG
JMCG Hequn Costume Co., Ltd.	Associate of JMCG
GETRAG (Jiangxi) Transmission Company	Associate of JMCG
Nanchang Baojiang Steel Processing Distribution Co., Ltd.	Associate of JMCG
Jiangxi JMCG Aowei Auto Component Co.	Associate of JMCG
Visteon Climate Control Nanchang	Associate of the Company
GETRAG Ford Transmissions GmbH	Joint venture of Ford
Jiangxi Biaohong Engine Tappet Co., Ltd.	Subsidiary of JMCG
Nanchang Jiangling Huasheng Cleaner Co., Ltd.	Subsidiary of JMCG

**JIANGLING MOTORS CORPORATION, LTD.**

**FOR THE SIX MONTHS ENDED 30 JUNE 2011**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

(All amounts in RMB unless otherwise stated)

**31 Related party transactions (continued)**

**i) Purchases of goods and services**

**Purchase of goods**

	<b>Six months ended 30 June</b>	
	<b>2012</b>	<b>2011</b>
	RMB'000	RMB'000
JMCG	61,928	51,209
Ford	117,830	190,580
JMCG Interior Trim Factory	243,391	268,792
Jiangxi Specialty Vehicles Jiangling Motors Group Co., Ltd.	95,320	91,823
Jiangling Material Co.	24,653	37,053
Visteon Climate Control Nanchang	94,756	93,281
Jiangxi Jiangling Chassis Company	289,881	276,107
Jiangling-Lear Interior Trim Factory	170,354	166,475
Jiangling Metal Casting Co.	17,281	16,285
Nanchang Gear Co., Ltd.	3,108	3,227
Nanchang Jiangling Hua Xiang Auto Components Co.	101,659	95,248
Jiangling Auto Component Co.	1,489	16,635
Jiangxi JMCG Shangrao Industrial Co.	6,381	6,035
Nanchang JMCG Printing Plant Co.	1,735	1,532
GETRAG (Jiangxi) Transmission Company	296,587	288,689
Nanchang JMCG Liancheng Auto Component Co.	113,576	106,210
JMCG Hequn Costume Co., Ltd.	1,864	1,417
Nanchang Baojiang Steel Processing Distribution Co., Ltd.	351,518	296,665
Nanchang JMCG Xinchen Auto Component Co.	12,881	13,692
Jiangxi JMCG Aowei Auto Component Co.	18,133	17,498
Nanchang JMCG Tianren Auto Component Co.	27,202	16,123
Nanchang Lianda Machinery Co., Ltd.	27,724	21,657
Jiangxi Biaohong Engine Tappet Co., Ltd.	3,976	-
Nanchang Jiangling Huasheng Cleaner Co., Ltd.	2,247	-
Jiangxi Velff Engine Co., Ltd.	1,997	-
Jiangxi Jiangling Material Utilization Co., Ltd.	1,013	-
Others	153	424
	<u>2,088,637</u>	<u>2,076,657</u>

**JIANGLING MOTORS CORPORATION, LTD.****FOR THE SIX MONTHS ENDED 30 JUNE 2011  
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

(All amounts in RMB unless otherwise stated)

**31 Related party transactions (continued)****i) Purchases of goods and services (continued)**

<b>Purchase of services</b>	<b>Six months ended 30 June</b>	
	<b>2012</b>	<b>2011</b>
	<b>RMB'000</b>	<b>RMB'000</b>
JMCG Import & Export Co., Ltd.		
- commission expenses	2,593	2,120
JMCG		
- rental expense	2,272	1,703
Ford		
- services	18,554	22,547
JMCG Jiangxi Engineering Construction Co., Ltd.		
- services	10,741	8,594
Jiangxi JMCG Industrial Co.		
- services	10,982	8,929
JMCG Property Management Co.		
- services	906	1,257
Ford Motor Research & Engineering (Nanjing) Co., Ltd.		
- services	2,106	1,092
Nanchang JMCG Shishun Auto Rental Co., Ltd.		
- services	2,949	3,408
Jiangxi Specialty Vehicles Jiangling Motors Group Co., Ltd.		
- services	1,239	940
Others	2,399	3,619
	<u>54,741</u>	<u>54,209</u>

**JIANGLING MOTORS CORPORATION, LTD.**

**FOR THE SIX MONTHS ENDED 30 JUNE 2011**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

(All amounts in RMB unless otherwise stated)

**31 Related party transactions (continued)**

**i) Purchases of goods and services (continued)**

<b>Purchases of property, plant and equipment</b>	<b>Six months ended 30 June</b>	
	<b>2012</b>	<b>2011</b>
	RMB'000	RMB'000
Jiangling Overseas Motors Sales&Service Co., Ltd.	207	-
	207	-

**ii) Sales of goods and provision of services**

<b>Sales of goods</b>	<b>Six months ended 30 June</b>	
	<b>2012</b>	<b>2011</b>
	RMB'000	RMB'000
JMCG Import & Export Co., Ltd.	502,723	440,058
JMCG Interior Trim Factory	39,466	36,855
Jiangxi Specialty Vehicles Jiangling Motors Group Co., Ltd.	69,502	59,412
JMCG Property Management Co.	3,664	3,565
JMCG Jingma Motors Co., Ltd.	1,266	-
Jiangxi Jiangling Chassis Company	13,323	12,052
Land Wind Sales Company	946	1,317
Jiangxi Jiangling Material Utilization Co., Ltd.	41,743	40,108
JMH	9,977	33,463
Nanchang JMCG Liancheng Auto Component Co.	16,716	24,770
Jiangling-Lear Interior Trim Factory	4,298	3,065
Jiangling New-power Auto Manufacturing Co.	20,199	16,895
Nanchang JMCG Trading Co.	356	16,262
Jiangxi Velff Engine Co., Ltd.	649	1,689
Nanchang Jiangling Hua Xiang Auto Components Co.	-	7,854
Jiangxi JMCG Yichehang Second-hand Motors Sales Co., Ltd.	754	1,266
Others	2,312	2,904
	727,894	701,535

<b>Rental income</b>	<b>Six months ended 30 June</b>	
	<b>2012</b>	<b>2011</b>
	RMB'000	RMB'000
Jiangling Material Co.	132	-
	132	-

**JIANGLING MOTORS CORPORATION, LTD.****FOR THE SIX MONTHS ENDED 30 JUNE 2011**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
(All amounts in RMB unless otherwise stated)**31 Related party transactions (continued)****iii) Balances arising from sales/purchases of goods/services**

<b>Trade receivables from related parties</b>	<b>30 June 2012</b>	<b>31 December 2011</b>
	RMB'000	RMB'000
Jiangxi Specialty Vehicles Jiangling Motors Group Co., Ltd.	-	44,255
JMH	2,783	3,557
Jiangxi Jiangling Material Utilization Co., Ltd.	2,716	3,650
Nanchang JMCG Liancheng Auto Component Co.	515	7,132
Jiangling New-power Auto manufacturing Co.	3,676	2,314
JMCG Import & Export Co., Ltd.	51,709	50,982
Jiangxi Velff Engine Co., Ltd.	561	158
JMCG Jingma Motors Co., Ltd.	-	11
Jiangxi Jiangling Chassis Company	1,523	-
	<u>63,483</u>	<u>112,059</u>
<b>Other receivables from related parties</b>	<b>30 June 2012</b>	<b>31 December 2011</b>
	RMB'000	RMB'000
JMCG Import & Export Co., Ltd	888	109
<b>Prepayments for purchasing of goods</b>	<b>30 June 2012</b>	<b>31 December 2011</b>
	RMB'000	RMB'000
Nanchang Baojiang Steel Processing Distribution Co., Ltd.	144,554	158,033
	<u>144,554</u>	<u>158,033</u>

**JIANGLING MOTORS CORPORATION, LTD.**

**FOR THE SIX MONTHS ENDED 30 JUNE 2011**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

(All amounts in RMB unless otherwise stated)

**31 Related party transactions (continued)**

**iii) Balances arising from sales/purchases of goods/services (continued)**

<b>Prepayments for construction in progress</b>	<b>30 June 2012</b>	<b>31 December 2011</b>
	RMB'000	RMB'000
JMCG Import & Export Co., Ltd.	22,727	4,718
JMCG Jiangxi Engineering Construction Co., Ltd.	738	1,992
	<u>23,465</u>	<u>6,710</u>
<b>Trade payables to related parties</b>	<b>30 June 2012</b>	<b>31 December 2011</b>
	RMB'000	RMB'000
JMCG Interior Trim Factory	116,194	107,461
Jiangxi Specialty Vehicles Jiangling Motors Group Co., Ltd.	206,123	168,527
Jiangling-Lear Interior Trim Factory	96,077	118,476
Visteon Climate Control Nanchang	68,195	59,200
JMCG	30,748	22,203
Jiangxi Jiangling Chassis Company	183,813	135,690
Nanchang Gear Co., Ltd.	1,683	2,223
Nanchang Jiangling Hua Xiang Auto Components Co.	73,296	72,585
Jiangling Metal Casting Co.	6,414	7,721
Jiangxi VELFF Engine Co., Ltd.	2,073	-
Jiangxi JMCG Shangrao Industrial Co.	2,752	2,592
Jiangling Auto Component Co.	924	1,262
JMCG Import & Export Co., Ltd.	87	1,733
Jiangling Material Co.	909	2,000
GETRAG (Jiangxi) Transmission Company	134,576	135,240
Nanchang JMCG Liancheng Auto Component Co.	85,207	72,387
Ford	30,298	51,703
Nanchang JMCG Xinchun Auto Component Co.	5,808	6,829
Jiangxi JMCG Aowei Auto Component Co.	29,359	19,394
Nanchang Lianda Machinery Co., Ltd.	17,473	17,220
Nanchang JMCG Tianren Auto Component Co.	14,543	13,278
JMH	-	67
Jiangxi Biaohong Engine Tappet Co., Ltd.	2,276	-
Nanchang Jiangling Huasheng Cleaner Co., Ltd.	2,340	755
Others	1,756	1,378
	<u>1,112,924</u>	<u>1,019,924</u>



**JIANGLING MOTORS CORPORATION, LTD.**

**FOR THE SIX MONTHS ENDED 30 JUNE 2011**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

(All amounts in RMB unless otherwise stated)

**31 Related party transactions (continued)**

**iii) Balances arising from sales/purchases of goods/services (continued)**

<b>Other payables to related parties</b>	<b>30 June 2012</b>	<b>31 December 2011</b>
	RMB'000	RMB'000
Ford	31,565	47,038
Ford Otosan Company	5,899	8,269
Ford Motor (China) Co., Ltd.	950	1,377
GETRAG (Jiangxi) Transmission Company	1,240	1,240
JMCG Jiangxi Engineering Construction Co., Ltd.	4,153	4,950
Jiangling-Lear Interior Trim Factory	9,090	9,218
Ford Motor Company of Australia Limited	2,554	2,921
Ford Global Technologies,LLC	14,870	19,162
Ford Motor Research & Engineering (Nanjing) Co., Ltd.	1,808	1,719
Jiangxi Specialty Vehicles Jiangling Motors Group Co., Ltd.	1,462	3,542
JMCG	2,075	829
Nanchang Jiangling Hua Xiang Auto Components Co.	1,157	807
Jiangxi Jiangling Chassis Company	2,570	3,030
JMH	441	-
GETRAG Ford Transmissions Gmbh	1,900	1,900
JMCG Interior Trim Factory	756	1,399
Others	1,199	1,794
	<u>83,689</u>	<u>109,195</u>
<b>Advance from related parties</b>	<b>30 June 2012</b>	<b>31 December 2011</b>
	RMB'000	RMB'000
JMCG Import & Export Co., Ltd.	948	2,007
Others	258	402
	<u>1,206</u>	<u>2,409</u>
<b>Cash deposit in related parties</b>	<b>30 June 2012</b>	<b>31 December 2011</b>
	RMB'000	RMB'000
JMCF (Note 12)	194,847	182,049

## **JIANGLING MOTORS CORPORATION, LTD.**

### **FOR THE SIX MONTHS ENDED 30 JUNE 2011 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

(All amounts in RMB unless otherwise stated)

#### **31 Related party transactions (continued)**

##### **iv) Service fee paid for management staff**

Pursuant to an agreement among the Company, Ford, Ford Motor Research & Engineering (Nanjing) Co., Ltd and Ford Motor (China) Co., Ltd. in 2008, some employees of Ford, Ford Motor Research & Engineering (Nanjing) Co., Ltd and Ford Motor (China) Co., Ltd. were assigned to the Company as management staff. During the six months ended 30 June 2012, the Company accrued service fee of approximately USD2,531,000 (equivalent to approximately RMB15,952,000), RMB265,000 and RMB1,170,000 payable to Ford, Ford Motor Research & Engineering (Nanjing) Co., Ltd and Ford Motor (China) Co., Ltd. for these employees, respectively.

Pursuant to an agreement between the Company and JMH in January 2012, some employees of JMH were assigned to the Company as management staff. During the six months ended 30 June 2012, the Company accrued service fee of approximately RMB441,000 payable to JMH for these employees.

##### **v) Guarantee**

As at 30 June 2012, bank loans of USD1,015,000 (equivalent to approximately RMB6,420,000) (2011: USD1,048,000, equivalent to approximately RMB6,602,000) were guaranteed by JMCF (Note 15).

##### **vi) Key management remuneration**

Key management includes directors (executive and non-executive), members of the Executive Committee, the Company Secretary and members of the Supervisory Board. During the six months ended 30 June 2012, the total remuneration of the key management was approximately RMB9,065,000 (the six months ended 30 June 2011:RMB7,621,000).

##### **vii) Royalty fee**

a) Pursuant to a development agreement among the Company, Ford, Ford Global Technologies, LLC and Ford Otosan Company in 2008, the Company agreed the payment of royalty fee to Ford at 2.6% on the net sales amount of V348 series automobiles till the sale of the products ceased. The 67.31% and 32.69% of total royalty fee should be paid to Ford Global Technologies, LLC and Ford Otosan Company respectively. During the six months ended 30 June 2012, the total royalty fee due to Ford Global Technologies, LLC and Ford Otosan Company was approximately USD3,177,000 (equivalent to approximately RMB20,047,000). As at 30 June 2012, the remaining amount of USD3,177,000 was included in other payables.

b) Pursuant to a technology licensing contract between the Company, Ford and Ford Global Technologies, LLC in 2007, the Company agreed the payment of licensing fee to Ford or its designee at USD92 for each of the Puma Diesel Engine manufactured. During the six months ended 30 June 2012, the total licensing fee due to Ford Global Technologies, LLC was approximately USD479,000 (equivalent to approximately RMB3,021,000). As at 30 June 2012, the remaining amount of USD479,000 was included in other payables.

## JIANGLING MOTORS CORPORATION, LTD.

### FOR THE SIX MONTHS ENDED 30 JUNE 2011 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(All amounts in RMB unless otherwise stated)

#### 31 Related party transactions (continued)

##### viii) Transaction with other state-owned entities

The Group's largest shareholder is JMH, which was established by state-owned enterprises, Changan Auto and JMCG, with equity interests of 50% and 50%, respectively. The Group is thereby considered to be significantly influenced by the PRC Government, which controls a substantial number of entities in the PRC. For the purpose of related party transactions disclosure, the Group has in place procedures to assist the identification of the immediate ownership structure of its customers and suppliers as to whether they are state-owned entities. Many state-owned entities have multi-layered corporate structure and the ownership structures change overtime. Nevertheless management of the Company believes that meaningful information relating to such kind of related parties transactions has been adequately disclosed. The Group has certain transactions with other state-owned enterprises including but are not limited to sales and purchases of goods and services, payments for utilities, purchase of fixed assets, depositing and borrowing money and entering into derivative financial instruments. Except for the transactions and balances disclosed as follows, there is no individually or collectively significant transactions:

##### Transactions with other state-owned entities

	Six months ended 30 June	
	2012	2011
	RMB'000	RMB'000
Purchase of goods	693,188	681,789
Purchase of fixed assets	19,382	64,158
Interest income	86,228	60,315

##### Balances with other state-owned entities

	30 June 2012	31 December 2011
	RMB'000	RMB'000
Cash and cash equivalents	5,447,418	5,152,928
Trade and other payables	309,720	236,813

#### 32 Principal subsidiary

As at the date of this report, the Group has the following subsidiary:

Entity	Place and date of incorporation	Percentage of equity interest held	Principal activities
Jiangling Isuzu	Nanchang, PRC / 10 March 1993	75%	Manufacture and sale of automobiles and spare parts

#### 33 Events after the balance sheet date

The Board of Directors approved acquiring 100% equity of Taiyuan Changan Heavy Truck Company ("TCHT") jointly held by China South Industries Group Corporation ("CSIG") and China Changan Automobile Group Co., Ltd. ("CCAG") with a consideration of no more than RMB 270 million, approved the Equity Transfer Agreement reached by CSIG, CCAG and the Company for the acquisition. After the completion of the Equity Transfer, TCHT will become a whole-owned subsidiary of the Company to manufacture heavy duty truck. The transaction is subject to the approvals of the relevant government authorities.

## **Section VII Catalog on Documents for reference**

- I. Originals of 2012 half-year report signed by Chairman;
- II. Originals of 2012 half-year financial statements signed by Chairman, Chief Financial Officer and Chief of Finance Department;
- III. Originals of all the documents and public announcements disclosed in newspapers designated by CSRC during the reporting period.
- IV. The Half-year Report in China GAAP.

Board of Directors  
Jiangling Motors Corporation, Ltd.  
August 28, 2012