

Chongqing Changan Automobile Company Limited



**2001 Annual Report
(B Share)**

Note: The Board of Directors of Chongqing Changan Automobile Co., Ltd. (hereinafter referred to as “the Company”) and the directors guarantee that the information contained in the annual report are free of false records, misleading statements or significant omissions, and assume individual and joint liabilities for the truthfulness, accuracy and integrity of the annual report.

(The annual report shall be presented in both Chinese and English, and shall there be any conflicting understanding of the text, the Chinese version shall prevail.)

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II. General Introduction of the Company

1. The Company's legal Chinese name: 重庆长安汽车股份有限公司

The Company's legal English name: Chongqing Changan Automobile Company Limited

2. Legal representative of the Company: Mr. Yin Jiaxu

3. Secretaries of the Board: Mr. Cui Yunjiang, Mr. Ma Jun

Securities Issues Representative: Ms. Li Jun

Address: No. 260, Jian Xin East Road, Jiang Bei District, Chongqing

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4. Registered address: No. 309, Nan Cheng Road, Nan An District, Chongqing

Post code: 400060

Office Address: No. 260, Jian Xin East Road, Jiang Bei District, Chongqing

Post code: 400023

Website of the Company: <http://www.changan.com.cn>

5. Publications for information disclosure of the Company: *China Securities*, *Securities Daily*, *Hong Kong Business*

Website for information disclosure of the Company: <http://www.cninfo.com.cn>

Annual Report is prepared at: Office of the Board of Directors

6. Place of listing: Shenzhen Stock Exchange

Abbreviated name of the stock: Changan Automobile Changan B

Stock Code: 000625 200625

7. The Company was first registered on: October 31, 1996

Registered Address: No. 309, Nan Cheng Road, Nan An District, Chongqing

Business license number: *Yu Jing* 5009021800205

Taxation registration number: State Taxation *Chong Zi* 51021120286320X

The name and address of the accounting firm for the reporting year:

Domestic CPA firm: PricewaterhouseCoopers Zhongtian CPA

Address: 12th Floor, Shui On Plaza, 333, Huai Hai Zhong Lu, Shanghai 200021, PRC

International CPA firm: PricewaterhouseCoopers Zhongtian CPA

Address: 12th Floor, Shui On Plaza, 333, Huai Hai Zhong Lu, Shanghai 200021, PRC

III. Extracts of Accounting and Operating Data

1. The Company's accounting data for the current year (RMB '000):

Profit before tax	260,800
Net profit	206,183
Profit from major business lines	1,432,342
Other income	103,849
Operating profit	289,417
Investment income	12,511
Net non-operating balance	-
Net cash in-flow from operating activities	986,180
Net increase in cash and cash equivalents	303,153

Note: The above data are consolidated figures incorporating related financial statements of Chongqing Changan Suzuki Automobile Company("Changan Suzuki") and other subsidiaries of the Company.



2. Reconciliation of the net profits presented under the PRC accounting standards and International Accounting Standards (“IAS”)

	Net Assets RMB'000	Net Profit RMB'000
As reported mode PRC accounting standards:	2,574,311	160,215
1. Staff bonus and welfare fund of Changan Suzuki appropriated from profit after tax	-	(13,000)
2. Amortization of good will arising on consolidation	(18,029)	858
3. Adjustment for amortization of pre-operating expenses of Changan Suzuki	1,227	-
4. Reversal of revaluation surpluses from of long-term assets relating to revaluation made in 1995	(7,877)	-
5. Deferred tax assets	69,110	69,110
6. Reversal of dividends declared but by not paid in 2001	49,067	-
7. Equity share of results of associate	(11,000)	(11,000)
As restated in conformity with IAS:	2,656,809	206,183

3. Key accounting data and financial indicators of the previous three years

Item	2001	2000	1999
Sales (RMB '000)	7,331,806	6,703,212	5,446,762
Net profit (RMB '000)	206,183	134,512	32,742
Total assets (RMB '000)	6,669,305	7,341,692	7,093,918,000
Shareholders' equity (RMB '000)	2,656,809	2,497,239	2,361,857
Earnings per share (yuan/share)	0.17	0.11	0.03
Net assets per share (yuan/share)	2.17	2.04	1.93
Adjusted net assets per share (yuan/share)	2.15	1.85	1.85
Net cash flow from operating activities per share (yuan/share)	0.80	0.72	0.71
Return on net assets (%)	7.7	5.49	1.4

Note: The above data and indicators are listed or calculated using figures from the consolidated accounting statements.

4. Other operating data and indicators of the previous three years

Item	2001	2000	1999
Sales quantity			
Including: Automobiles (unit)	199,173	183,886	159,856
Engines (set)	33,219	12,477	57,616
Market share (%)	27.2	27.28	28.31

Notes: ① The market share figures were quoted from “Report on the Production and Sales of Automobiles in the Automobile Industry of China” published by [China Association of Automobile Manufacturers](#) (CAAM) ([China Automobiles Industry Association](#)).

② The number of engines sold in the year 1999 includes engines provided to Changan Suzuki.



IV. Changes in Shareholdings and Information on Shareholders

1. Change in shareholding

Change in share capital of the Company (unit: share)

	Opening balance	Increase/decrease in the reporting period (+, -)						Closing balance
		Allotment	Bonus	Transfer from share premium	New issuance	Others	Sub-total	
I. Non-circulated shares								
1. Promoter shares	708,666,000							708,666,000
Including:								
State-owned legal person shares								
Domestic legal person shares	708,666,000							708,666,000
Foreign legal person shares								
Others								
2. Legal entity shares raised								
3. Employee shares	28,200					-7,200	-7,200	21,000
4. Preemptive shares and others								
Including: transferred rights issue								
Sub-total of non-circulated shares	708,694,200					-7,200	-7,200	708,687,000
II. Circulated shares								
1. Domestic listed RMB shares	167,971,800					7,200	7,200	167,979,000
2. Domestic listed foreign shares	350,000,000							350,000,000
3. Overseas listed foreign shares								
4. Others								
Total circulated shares	517,971,800					7,200	7,200	517,979,000
III. Total shares	1,226,666,000							1,226,666,000

Note: "Employee shares" refer to shares held by Directors and Supervisors of the Company. The 7,200 shares under the Others column of "Increase/decrease in the reporting period" are the result of the 11,400 shares of the departed supervisors which were allowed to circulate and the 4,200 shares for new supervisors which are not allowed to circulate.

2. Information on the shareholders

(1) By the end of the reporting period, the shareholders of the Company totaled 117,777, of which 85,567 were A share shareholders (including 5 employee share shareholders) and 32,210 were B share shareholders.

(2) The largest ten shareholders:

Name of the shareholder	Shares held at the beginning of the year	Share increase/decrease in the year	Shares held at the year-end	% of total shares
1. Changan Automobile Group Limited ("CAC")	708,666,000	0	708,666,000	57.77
2. Suzuki Motor Corporation	122,500,000	-1,521,900	120,978,100	9.86
3. Bony A/C CMG CH China Investment Ltd	2,600,100	0	2,600,100	0.21
4. Toyo securities Asia Ltd. _A/C Clients	2,533,260	-316,560	2,216,700	0.18
5. Zhang Xubin	0	1,919,568	1,919,568	0.16
6. Momura TB/Momura ITM	0	1,499,949	1,499,949	0.12
7. Hu Jianwei	0	1,277,900	1,277,900	0.10
8. BSDT/Virginia Retirement System	0	1,194,800	1,194,800	0.10
9. Deng Youde	906,000	128,000	1,034,000	0.08
10. Haitong Securities (Hong Kong) Ltd.	0	920,000		0.08

Note: The shares held by CAC as shown above are state-owned legal person shares. Of the 708,666,000 shares, 354,333,000 shares were pledged and 2,000,000 were frozen by judicial orders. The remaining shareholders are all foreign shareholders, holding B shares of the Company.

(3) The largest shareholder of the Company

The largest shareholder: Changan Automobile Group Limited

Legal representative: Zhao Guohua

Date of establishment: October 28, 1996

Business scope and major products: manufacturing, development and sale of Changan series cars and spare parts; manufacturing and sale of firearms for civil use, ammunition, general use machinery, dies, tools etc.

Registered capital: RMB 740,000,000

Equity structure: state-owned sole-proprietorship company



(4) The controlling party of the largest shareholder , CAC

The controlling party of CAC: China South Industries Group

Legal representative: Wang Dechen

Date of establishment: June 29, 1999

Business scope and major products: investment and management of state-owned assets; manufacturing of guns and firearms; engineering prospecting, designing, construction, contracting, construction supervision; equipment installation, etc.

Registered capital: RMB 12,645,210,000

Equity structure: ownership by the public

V. Information on the Directors, Supervisors, Senior Management and the Staff

1. Information on the directors, supervisors and senior management

Name	Sex	Age	Term of office	Change of shares held		Position
				At the beginning of the year	By the year-end	
Yin Jiaxu	M	45	2000.05-2003.05	4200	4200	Chairman
Zhao Luchuan	M	48	2000.05-2003.05	4200	4200	Deputy Chairman, General Manager
Keijin Yamauchi	M	58	2000.05-2003.05	0	0	Deputy Chairman
Li Shouwu	M	35	2000.05-2003.05	0	0	Director
Zhang Xinyu	M	53	2000.05-2003.05	0	0	Director
Chen Qing	M	39	2000.05-2003.05	0	0	Director
Wang Chongsheng	M	43	2000.05-2003.05	4200	4200	Director
Guo Xuewu	M	45	2000.05-2003.05	0	0	Director
Zhang Baolin	M	39	2001.05-2003.05	0	0	Director
Toshiaki Hashimoto	M	53	2000.05-2003.05	0	0	Director
Koichiro Chikaishi	M	53	2000.05-2003.05	0	0	Director
Shi Yubao	M	48	2001.05-2003.05	0	0	Organizer of the Board of Supervisors
Zhou Xiaying	F	52	2000.05-2003.05	0	0	Supervisor
Peng Minggeng	M	51	2001.05-2003.05	4200	4200	Supervisor
Cao Dongping	F	48	2001.05-2003.05	0	0	Supervisor
Xiong Huilin	F	42	2000.05-2003.05	0	0	Supervisor
Zhu Zhiping	M	39	2001.11-2003.05	0	0	Supervisor
Hua Dubiao	M	36	2001.11-2003.05	0	0	Supervisor
Fu Xiangyu	F	46	2001.11-2003.05	0	0	Supervisor
Zhu Huarong	M	36	2000.4-2003.05	0	0	Deputy General Manager
Jia Tingyue	M	38	2001.4-2003.05	0	0	Deputy General Manager
Cui Xiaomei	F	46	2001.4-2003.05	0	0	Deputy General Manager
Cui Yunjiang	M	38	2000.4-2003.05	0	0	Deputy General Manager, Board Secretary
Ma Jun	M	42	2000.4-2003.05	0	0	Board Secretary

Note: The positions of the Directors and Supervisors in their respective shareholder company

Name	Shareholder company	Position	Term of office
Yin Jiaxu	Changan Automobile Group Limited	Executive Director, President, Deputy Secretary of the Party Committee	1998.7-
Keijin Yamauchi	Suzuki Motor Corporation	Participation	1999.4-
Wang Chongsheng	Changan Automobile Group Limited	Director, Vice President, Deputy Secretary of the Party Committee	1996.2-
Guo Xuewu	Changan Automobile Group Limited	Director, Vice President	1999.12-
Zhang Baolin	Changan Automobile Group Limited	Vice President	2001.3-
Toshiaki Hashimoto	Suzuki Motor Corporation	Director of the China Department of Overseas Automobiles	2000.10-
Shi Yubao	Changan Automobile Group Limited	Chairman of the Worker's Union, Deputy Secretary of the Party Committee	2000.9-
Zhou Xiaying	Changan Automobile Group Limited	Secretary to the Planning Committee, Deputy Secretary of the Party Committee	1996.1-
Peng Minggeng	Changan Automobile Group Limited	Vice President	1998.11
Cao Dongping	Changan Automobile Group Limited	Director of the Finance Department	2000.3-

2. Remuneration of the Company for the year

In 2001, the annual remuneration for the directors, supervisors and senior management has been duly paid by month according to the relevant policy on management salary and by ranks and grades set by China South Industries Group.

During the reporting period, total remuneration for the directors, supervisors and senior management was at RMB 232,686. The total remuneration for the three most highly paid directors (only one director receives remuneration from the Company) was at RMB 31,366, and total remuneration for the three most highly paid senior managers was at RMB 70,226.

Of the directors, supervisors and senior managers who receive payment from the Company, three received payment between RMB 17,000 and 20,000, three received payment between 20,000 and 25,000, three received payment 25,000 and 30,000, and one received payment between 30,000 and 35,000.

During the reporting period, Mr. Yin Jiaxu, Mr. Keijin Yamauchi, Mr. Li Shouwu, Mr. Zhang Xinyu, Mr. Chen Qing, Mr. Wang Chongsheng, Mr. Guo Xuewu, Mr. Zhang Baolin, Mr. Toshiaki Hashimoto, Mr. Koichiro Chikaishi, Mr. Shi Yubao, Ms. Zhou Xiaying, Ms. Cao Dongping and Ms. Xiong Huilin did not receive remuneration from the Company.

3. During the reporting period, Mr. Chen Yongqiang resigned as Director as a result of change of position, and Mr. Wang Yang, Mr. Liu Changying and Mr. Liao Mingguang resigned as Supervisors as a result of retirement. During the reporting period, the Board of Directors engaged Mr. Jia Tingyue and Ms. Cui Xiaomei as Deputy General Manager of the Company.

4. The Employees of the Company

By the end of the year, total headcount of the Company was at 7,135, including 4,298 production workers, 1,354 salespersons, 694 technicians, 205 finance staff, and 470 administrative staff. Of the total, there were 4 doctors, 23 postgraduates, 982 undergraduates, and 1,019 with college education or above.

The number of retired employees (including those who retired as a result of the downsize of the Company) for which the Company is required to bear to their expenses was at 2,001.

VI. Corporate Governance Structure

1. Corporate governance

The Company has been strictly following the relevant laws and regulations, including the Company Law, the Securities Law and the Regulations for the Governance of Listed Companies by China Securities Regulatory Commission, and continuously improving the corporate governance of the Company, adopting modern best practices and standardizing the management and operations of the Company. The Company has formulated rules and regulations, including the Articles of Association, Rules of Procedures of the Board of Directors, Rules of Procedures of the Board of Supervisors, Rules of Procedures of the Shareholders' General Meeting, Regulations of the Company on Guarantee Management, Regulations of the Company on Information Disclosure, etc., and these rules and regulations are elaborated as follows:

- (1) About shareholders and the shareholders' general meeting: the Company can ensure equal status and treatment to all shareholders, including small and medium shareholders, and ensure that all shareholders are able to fully exercise their rights and enjoy their benefits; the Company has formulated the Rules of Procedures of the Shareholders' General Meeting, the Company notifies and calls up the shareholders' general meetings in accordance with the Rules, and all shareholders can fully exercise their voting rights; the Company has been observing open and fair principles in conducting related-party transactions and makes full disclosure of the fairness of the prices.

- (2) About the controlling shareholder and the listed company: the Company and its controlling shareholder are independent of each other in terms of assets, personnel, finance, business and organization, the controlling shareholder exercises its rights and enjoys its benefits through the controlling shareholders' general meeting, the company's shareholders' general meeting, the Board of Director, the Board of Supervisors and the senior management can function independently and effectively, and the controlling shareholder has not directly or indirectly intervene in the decision-making and operational activities of the listed company. Owing to market development and risk control, the sales network of the Company has been dependent of the controlling shareholder to a certain extent, and the Company plans to strengthen the sales network and solve this problem through measures including acquisition. Nanjing Changan Automobile Co., Ltd., a subsidiary of the controlling shareholder, is in the same business with the Company, and the competition has affected the market share of the Company to some extent; the Company plans to solve this problem through acquisition of and participation in the equity of the two companies.
- (3) About the directors and the Board of Directors: the Company has been strictly following the relevant regulations of the Articles of Association in selecting and engaging directors, and the makeup and the number of directors for the Board has been in conformity with relevant laws and regulations; the Company has developed Rules of Procedures of the Board of Directors, and calls up board meetings accordingly; the directors of the Board have been honest, diligent and industrious in fulfilling their duties, and they have been active in acquiring knowledge in relevant laws and regulations by participating in training to further enhance their expertise; the Company is seeking proper candidates for independent directors to establish proper independent directorship and **special-purpose committees**.
- (4) About supervisors and the Board of Supervisors: the makeup and number of supervisors are in full conformity with relevant laws and regulations, and the supervisors are able to fully fulfill their supervisory functions and obligations.
- (5) About performance evaluation and incentive and restrictive measures: the Company is now working hard to establish the performance evaluation and restrictive measures for the directors, supervisors and senior managers; the Company has been strictly observing relevant regulations in engaging and appointing management staff.
- (6) About stakeholders: the Company respect of and safeguard the legal rights and interests of all stakeholders including banks, other creditors, consumers and employees in promoting the continued, rapid and robust development of the Company.

- (7) About information disclosure and transparency: the secretary of the Board is responsible for information disclosure issues and the receiving investors from home and abroad and providing consulting services to the investors; the Company has established the Regulations for Information Disclosure to ensure the timely, accurate and complete information disclosure in accordance of the Listing Regulations of Shenzhen Securities Exchange and other relevant regulations; the Company timely discloses in detail information of large shareholders or the real controller of the Company and the changes in shareholding in accordance with relevant regulations.
2. The independent directors
The Board of the Company is now actively drafting and revising relevant regulations and looking for proper independent director candidates in accordance with the requirements of the Guidelines for the Establishment of Independent Directorship in Listed Companies released by China Securities Regulatory Commission to establish the independent directorship before June 30, 2002 according to relevant regulations.
3. With regard to the 5 areas of segregation for the Company and its controlling shareholder, please refer to this section on corporate governance structure.

VII. The Shareholders General Meeting

During the reporting period, four shareholders general meetings have been held.

- I. The Board of Directors announced the year 2000 shareholders general meeting on April 11, 2001 through China Securities, Securities Daily and Hong Kong Business. The meeting was held on May 15, 2001 at Chongqing Changan Hotel. Present at the meeting were seven shareholders and shareholder representatives (including one representative for legal person shares, five shareholders for A shares and one representative for B shares), representing 710,229,042 shares (including 708,666,000 legal person shares, 21,800 A shares and 1,541,242 B shares), constituting 57.9% of total shares, meeting the requirements of the Company Law, Articles of Association and other relevant regulations. The meeting debated and passed through voting the following resolutions:
 1. Report of the Board of directors
 2. Report of the Board of Supervisors
 3. Changes in the composition of the Board of Directors
Owing to other work arrangements, Mr. Chen Yongqiang resigned as director and vice chairman of the Board of Directors, and Mr. Zhang Baolin was elected director.

4. Changes in the composition of the Board of Supervisors

Owing to other work arrangements, Mr. Wang Yang, Mr. Liu Changying and Mr. Liao Mingguan resigned as supervisors of the Board of Supervisors, and Mr. Shi Yubao, Mr. Peng Minggeng and Ms. Cao Dongping were elected supervisors.

5. Reappointment of the auditor for the Company

6. The profit allocation scheme for 2000

The above resolutions were announced on May 16, 2001 through China Securities, Securities Daily and Hong Kong Business.

II. The Board of Directors gave notification of the first extraordinary shareholders general meeting of 2001 on May 26, 2001 through China Securities, Securities Daily and Hong Kong Business. The meeting was held on June 26, 2001 at Chongqing Changan Hotel. Present at the meeting were six shareholders and shareholder representatives (including one representative for legal person shares, four shareholders for A shares and one representative for B shares), representing 709,919,842 shares (including 708,666,000 legal person shares, 14,600 A shares and 1,239,242 B shares), constituting 57.87% of total shares, meeting the requirements of the Company Law, the Articles of Association and other relevant regulations. The meeting debated and passed through voting the following resolutions:

1. Application for new issuance of no more than 180,000,000 shares of domestic listed foreign shares (B shares) in 2001.
2. Feasibility of the plans for using the funds to be raised through new issuance of B shares.
3. Use of funds raised during the previous share issuance.
4. Sharing of the undistributed profits before the new issuance of B shares between the new shareholders after the issuance of B shares and the shareholders prior to the issuance of B shares.
5. Revision of the Articles of Association.
6. Revision of the Rules of Procedures of the Shareholders General Meeting.
7. Formulation of the Regulations of Guarantee Management of the Company.
The above resolutions were announced on June 27, 2001 through China Securities, Securities Daily and Hong Kong Business.

- III. The Board of Directors gave notification of the second extraordinary shareholders general meeting of 2001 on August 11, 2001 through China Securities, Securities Daily and Hong Kong Business. The meeting was held on September 10, 2001 at Chongqing Changan Hotel. Present at the meeting were 9 shareholders and shareholder representative (including one representative for legal person shares, 8 shareholders for A shares and no representative for B shares), representing 708,694,900 shares (including 708,666,000 legal person shares, 28,900 A shares and no B shares), constituting 57.774% of the total shares, meeting the requirements of the Company Law, the Articles of Association and other relevant regulations. The meeting debated and passed through voting the following resolutions:
1. Revision of the Articles of Association
 2. The agreement regarding the business and transactional behaviors between related-party enterprises. The above resolutions were announced on September 12, 2001 through China Securities, Securities Daily and Hong Kong Business.
- IV. The Board of Directors gave notification of the third extraordinary shareholders general meeting of 2001 on October 19, 2001 through China Securities, Securities Daily and Hong Kong Business. The meeting was held on November 19, 2001 at Chongqing Changan Hotel. Present at the meeting were seven shareholders and shareholder representatives (including one shareholder for legal person shares, six shareholders for A shares, and no shareholder nor representative for B shares), representing 708,686,100 shares (including 708,666,000 legal person shares, 20,100 A shares, and no B shares), constituting 57.773% of the total shares meeting the requirements of the Company Law, the Articles of Association and other relevant regulations. The meeting debated and passed through voting the following resolutions:
1. Adjustment of the scheme for issuance of new shares in 2001.
 2. Appointment of a new auditor for the Company. The above resolutions were announced on November 30, 2001 through China Securities, Securities Daily and Hong Kong Business.

VIII. Report by the Board of Directors

I. The business operation of the Company

1. The scope of key business lines and a summary of operational activities

The Company is mainly engaged in the development, manufacturing and sales of Changan mini cars, Changan Alto mini sedans and Changan Lingyang sedans, and the manufacturing and sales of various types of Jiangling engines for mini car series.

In 2001, the Company produced 196,163 automobiles (including 43, 123 Changan Suzukis), sold 199,173 automobiles (including 43,085 Changan Suzukis), and sold 33,129 engines. In 2001, the Company made big efforts in developing the overseas market and exported 2,420 automobiles.

The following illustrates the production and sales of the top ten automobile manufacturers in China:

Name	Production	Sales
Automobile manufacturers 103 in total	2,334,440	2,363,665
Shanghai Automobile Industry Company	440245	448946
The First Automobile Corporation	419792	407495
Dongfeng Automobile Group Company	262869	265407
Changan Automobile Group Limited	225399	230241
Harbin Hafei Automobile Company	138958	141774
Beijing Automobile Industrial Group Limited	134121	136538
Changhe Airplane Industrial Company	121288	121018
Jinbei Automobile Company Limited	74191	74865
Tianjin Automobile Industrial Group Company Limited	58923	79957

Note: ① The figures are extracted the “Report on the Production and Sales of Automobiles in the Automobile Industry of China” published by China Association of Automobile Manufacturers (CAAM)

② The production and sales of Changan Automobile Group Limited are the gross figures of the production and sales of the Company and other automobile factories under the Changan Group. Of the total, the Company has produced 193,163 automobiles and sold 193,173 automobiles.

(1) Turnover of the Company by product for the year ended 31 December 2001.

Product types	Turnover (RMB thousands)	%
Mini-lorry	706505	9.64%
Mini-van	1771447	24.16%
SC6350 (Changan Star)	2380043	32.46%
Special purpose vehicle	75393	1.03%
Changan Lingyang	766936	10.46%
Alto sedan	1361436	18.57%
JL368Q	99227	1.35%
JL462Q series	100143	1.37%
JL465Q series	47413	0.65%
JL472Q series	97	0.00%
JL474Q series	487	0.01%
Others	22679	0.31%
Total	7331806	100.00%

In 2001, the margins for products which accounted for more than 10% of the total revenue are: SC6331 van, 12%, SC6350 standard van, 25%, SC7080 sedan, 17%, and SC7100 sedan, 12%.

(2) Sales volume of the Company by product for the year ended December 31, 2001.

Type	Number sold	%
Mini-lorry	37,185	18.67%
Mini-van	73,679	36.99%
SC6350 (Changan Star)	43,615	21.90%
Special purpose vehicle	1,609	0.81%
Changan Lingyang	9,869	4.95%
Alto sedan	33,216	16.68%
Total	199,173	100.00%
JL368Q	9,864	29.69%
JL462Q series	16,505	49.69%
JL465Q series	6,829	20.56%
JL472Q series	4	0.01%
JL474Q series	17	0.05%
Total	33,219	100.00%

2. Operations and performance of the subsidiaries of the Company

Name	Registered capital	Shares held	Major business lines	Total assets (RMB '000)	Net profit (RMB '000)
Chongqing Changan Suzuki Automobile Co., Ltd.	US\$ 70M	51%	Production and sales of Alto series and the parts	1,445,149	181,926
Chongqing Changan Automobile Import and Export Company	RMB 100M	100%	Export, wholesale and retail of automobiles and parts	320,544	10,250
Chongqing Jiangling Electro-mechanical Company	RMB 9.34M	100%	Wholesale and retail of automobiles and parts	12,571	119
Chongqing Changan Automobile Sales Company	RMB 485M	100%	Sales of automobiles, engines and parts	102,514	1,941

3. Major suppliers and clients

In 2001, gross purchase by the Company from the top five suppliers accounted for 16.39% of total purchase of the year; gross sales turnover to the top five clients accounted for 13.2% of the total turnover of the Company.

4. Difficulties encountered during operation and solutions

(1) Difficulties encountered during operation

- ① The existence of local protectionism in automobile consumption, as demonstrated by the restriction in the usage and registration of mini automobiles, affected the fair competition in the automobile market and made it difficult to the Company to develop and expand the market share.
- ② The slow down of world economy in 2002 makes the market environment more grim and the outlook of foreign trade and automobile export of PRC is not optimistic.
- ③ Following the accession of China into WTO, consumers adopt waiting attitude than make purchase.
- ④ Competition in pricing and new products are more intense. The price competition between domestically manufactured automobiles and imported automobiles is intensified; the cycles for developing new products are becoming shorter.

(2) Solutions

In 2001, the Company focused on “enhancing the capability in six major areas, adjusting product structure and achieving seven breakthroughs”, to enhance the overall strength of the Company.

- ① Enhancing the capability of the Company in six major areas. In order to strengthen the **market control capability**, the Company has established the new market philosophy of “profits to the distributors, satisfaction to the consumers and development of Changan” to bring the best enthusiasm of both the manufacturer and distributors into play. The Company also adjusted its marketing strategy, integrated the marketing network and the service network, and the focus on key markets driving forward the marketing activities of the Company. In the area of **financial management**, the Company strengthened fund management and contractual price review management and implemented full budget management. For the improvement of **basic management capabilities**, the Company continued to implement the 3SC management and MLDQ management, the latter of which won the State’s Award for Innovation in Management. The Company engaged Sinotrust Group and Roland Berger Strategy Consultants to streamline the procurement and sales resources. The Company also laid great emphasis on onsite management, promote innovative awareness and encouraged recommendations for the rationalization of the Company. Efforts were also seen in **optimizing the resources**, as the resources were integrated to raise the competitiveness of the Company. In improving **service capability**, the Company launched a campaign to enhance the brand image. The set up of service network were improved, and the relationship and the cooperation with distributors and maintenance stations were further strengthened. The Company attached great importance in improving the service and expertise through training, set up user database and implemented follow-up services. To improve **the technological innovative capability**, the company enhanced the development thus raising its capability in design and development of the technology center, the Company is moving towards joint product development and design with foreign companies, and implemented the 2MM project and increased efforts in the area of intellectual properties.
- ② Adjustment of the product structure. With the introduction in large scale launch of the SC1016 and SC6336 series, especially the usage of the new welding production line, the Company now has three major series of products, namely SC1016, SC6336 and SC6350. The migration from carburetor cars to electric fuel injection cars has been completed, and the production is now shifting from SC6331 cars to SC6350 cars.

- ③ The Company has made seven major breakthroughs in the past year. The first breakthrough was seen in the **new products**. The “eight-car and two-engine” research program has been carried out, and the development of new products has completed the shifts from 2D to 3D, aiming to be in line with international standards. The second breakthrough was achieved in product **quality**, in which the idea that the quality of the products is determined by the quality of men has been widely promoted. The Company reformed the quality control system and proposed the quality improvement through the devotion of heart, efforts and wisdom of the people. Significant efforts have also been made in the basic management of quality information, strengthening process control and restructuring the supporting systems. As a result of these efforts, the Company successfully passed the automobile quality supervision and examination and won the honor of Quality and Effective Company of the State. In the breakthrough in **cost control**, the Company implemented full budget management, and streamlined the purchase process by establishing the quantity-price purchase platform. Stricter economic indicators and 3SC management performance evaluation have also been applied. The breakthrough in **marketing** saw the strengthening of marketing management and performance evaluation through the four major tasks of “management, sales, cash return, and service”. The breakthrough in **People** was seen in human resources needs analysis and training analysis, increased training of senior technicians and managers and public recruitment of medium level managers. Incentive measures were improved, the incentive programmes regarding the reward of technical achievements were introduced, salary system reform was launched and the postdoctoral secondment centers were established. The sixth breakthrough was in the area of **information construction**, in which information technology has been widely applied in the product research and development and production management. Office automation, network construction, and financial informatization were all targeted areas. The ERP program, centering on the integration of finance management, marketing management and information resources, was launched. The seventh breakthrough was achieved in the building of corporate culture of the Company, in which the Changan Corporate Culture Manual and more were completed to build a healthy and conducive environment.

5. Explanation of variance to the plans of the Company

Due to the state's restriction on the manufacturing and sales of carburetor cars, the consumers' attitude of waiting rather than buying after the entry into WTO and the liberation of prices of home made cars, the prices of the automobile market had been lowered and the achievement of the annual revenue of the Company had thus been affected. In 2001, the revenue of the Company reached RMB 7.3 billion, 18% less than what was planned for.

6. The investments of the Company in the past year

(1) Analysis of the investments of the Company

By December 31, 2001, the long-term equity investment were at RMB 240,624,716, at an increase of RMB 171,737,490 from the previous year as a result of investment Changan Ford Automobile Co., Ltd., Chongqing Baoteman Biotech Co., Ltd., Chongqing Changan Information Technology Co., Ltd., and Chongqing Certification Authority Co., Ltd. The details are shown below:

Name	Major business lines	Investment	Equity %
Changan Ford Automobile Co., Ltd.	Manufacturing and sales of automobiles and parts	US\$ 25.48 million	26%
Chongqing Baoteman Biotech Co., Ltd.	Research, development, manufacturing and sales of bio and pharmaceutical products	RMB 3 million	10%
Chongqing Changan Information Technology Co., Ltd.	Development, manufacturing and sales of computer software and hardware products	RMB 4.5 million	21.43%
Chongqing Certification Authority Co., Ltd.	Digital certification	RMB 1 million	11.11%

(2) The use of proceeds from the funds raised

No.	Investment project committed	Actual investment	Investment	Project stage	Earnings projection
1.	Automobile production line	Automobile production line upgrade	46027	In progress	Included in the overall earnings of the Company
2.	Engine production line	Engine production line upgrade	85519	In progress	
3.	Technology Development Center construction	Construction of the Technology Development Center	3855	In progress	
4.	Additions to working capital and repayment of loans	Additions to working capital and repayment of loans	0		
	Total		135401		

By December 31, 2001, share issue proceeds not utilized stood at RMB 213,826,000, which has been placed in banks as current or time deposits. The use of these proceeds shall be in line with its development needs.

(3) The use of funds not derive from the proceeds from shares issued

No.	Investment project	Funds injected	Project stage	Earnings projection
1.	Automobile production line	37983	In progress	Included in the overall earnings of the Company
2.	Engine production line	27700	In progress	
3.	Others	14626		
	Total	80309		

7. Financial status of the Company

By December 31, 2001, the total assets, long-term liabilities and shareholder equity of the Company in comparison to the previous year.

Item	2001	2000	Variance from the previous year
Total assets	6,669,305	7,341,692	-9.2%
Long-term liabilities	207,000	155,250	33.33%
Shareholder equity	2,656,809	2,497,239	6.37%
Profits from major business lines	1,432,342	998,602	43.43%
Net profits	206,183	134,512	53.73%

The decrease of total assets has been a result of repayment of short-term loans; the increase of long-term liabilities has been caused by the increase of loans and provision for welfare and benefits for the retired employees; the increase in shareholders' equity was mainly due to the profits of the year; and the increase of profits from major business lines and net profits was achieved by the increase in sales of SC6350 products which have a higher margin in the product portfolio of the Company.

8. The impact of significant changes in the productive and operating environment and macro policies and laws and regulations on the Company
 - (1) The past year has seen a quickened pace of alliance and restructuring in the international automobile industry. The union of strong players in the business gives a more distinguished demonstration of the internationalization of automobile technology, products and enterprises, and the lean production, economies of scale, platform strategy, global procurement, module supply and brand competition have made large automobile manufacturers more powerful and competitive.
 - (2) The State Planning Commission made the decision in May to liberalize prices in the domestic automobile market. The consumers' anticipation of the drop in price of automobiles had led to overall decline in the domestic automobile market.

- (3) At the end of June, four state bureaus and ministries, led by the State Bureau of Environmental Protection, jointly issued the “Notice regarding the ban on Production and Sales of Carburetor Type Automobiles and Five-Seat Passenger Vehicles by the Prescribed Date”, and this policy had considerable impact on Changan Suzuki, a subsidiary of the Company. By April 2001, Changan Suzuki had stopped production of carburetor type Alto sedans.
- (4) In the Tenth Five Year period, the country has laid the emphasis on the development of economic automobiles with exhaust volume of under 1.3 liter the fuel consumption per hundred kilometers has reached the advanced level of the country at price of around RMB 80,000 and meeting all the safety, energy saving and discharge requirements of the state regulations and needs for personal consumers. This provides a good policy environment for the development of economic automobiles of the Company.

9. Planning for the fiscal year 2002

2002 is the first year for the Company to meet the challenges after China's entry into WTO. The Company shall stick to its motto of “innovation, pragmatism, effectiveness and efficiency” to further build the managerial, technological and marketing innovation systems. The Company is aiming to achieve new progress in the five projects aforementioned to enhance the overall competitiveness of the Company. It has also set targets in the internationalization strategy, brand strategy, information construction and corporate culture building of the Company.

Through thorough study and analysis of the market, the production targets for the Company are: production of 212,500 automobiles (including Changan Suzuki), sales of engines 67,000 engines, and revenue of more than RMB 8 billion.

10. The work of the Board of Directors

- (1) The meetings of the Board and the resolutions in the year
In the reporting period, four board meetings had been held:

- ① The Third Meeting of the Second Board of Directors was held on April 9, 2001 at Chongqing Changan Hotel. Present at the meeting were 9 out of 11 directors, 1 authorized director and 15 attendees without voting rights. The following resolutions were debated and passed :
- i. 2000 annual report.
 - ii. Use of proceeds from the issuance of shares.
 - iii. Final settlement of financial accounts of 2000 and the financial budgets for 2001.
 - iv. Change of composition of the Board of Directors.
 - v. Selection of deputy chairman of the Board.
 - vi. Selection and appointment of deputy general manager of the Company.

- vii. Reappointment of the auditor for the Company.
 - viii. Preliminary profit allocation plan for 2000 and the profit allocation policy for 2001.
 - ix. Investment in Changan Ford Automobile Co., Ltd.
 - x. On the notification of holding the year 2000 annual shareholders general meeting.
- ② The Fourth Meeting of the Second Board of Directors was held on May 25, 2001 at Chongqing Changan Hotel. Present at the meeting were 6 out of 11 directors, 1 authorized director and 10 attendees with no voting rights. The following resolutions were debated and passed:
- i. Application for new issuance of no more than 180,000,000 shares of domestic listed foreign shares (B shares) in 2001.
 - ii. Feasibility of the plan for using the proceeds from the new issuance of B shares.
 - iii. Use of proceeds raised from the previous issuance of shares.
 - iv. On the sharing of undistributed profits before the new issuance of B shares between shareholders prior to the new issuance and the new shareholders after the new issuance.
 - v. Revision of the Articles of Association.
 - vi. Revision of the Rules of Procedures of the Shareholders General Meeting.
 - vii. Revision of the Rules of Procedures of the Board of Directors.
 - viii. Rules of the General Manager.
 - ix. Regulations of Guarantee Management of the Company.
 - x. Regulations of Information Disclosure of the Company.
 - xi. Investors Service Plans of the Company.
 - xii. The First Extraordinary Shareholders General Meeting of 2001.
- ③ The Fifth Meeting of the Second Board of Directors was held on August 9, 2001 at Chongqing Changan Hotel. Present at the meeting were 7 out of 11 directors, 0 authorized directors and 10 attendees with no voting rights. The following resolutions were debated and passed:
- i. The rectification report concerning the problems identified in the inspection by the Chongqing Securities Regulatory Office of China Securities Regulatory Commission.
 - ii. 2001 interim report and extracts to the interim report.
 - iii. Use of proceeds from the issuance of shares in the mid 2001.
 - iv. Interim profit allocation scheme for 2001.
 - v. Revision of the Articles of Association.
 - vi. Second Extraordinary Shareholders General Meeting of 2001.

- ④ The Sixth Meeting of the Second Board of Directors was held on October 18, 2001 at Chongqing Changan Hotel. Present at the meeting were 6 out of 11 directors, 2 authorized directors and 10 attendees with no voting rights. The following resolutions were debated and passed:
- i. Development of CM8 mini-auto.
 - ii. Adjustment of the plan for new issuance of shares for 2001.
 - iii. Engagement of new auditor for the Company.
 - iv. Statement on the change of accounting policy.
 - v. Third Extraordinary Shareholders General Meeting of 2001.
- (2) The execution of the resolutions of the shareholders general meetings by the Board during the reporting period.

In 2001, the Board strictly carried out all the resolutions of the shareholders general meetings. Based on the profit allocation scheme passed on May 15, 2001 in the shareholders general meeting, the board announced and carried out the dividend allocation and payment plan through China Securities, Securities Daily and Hong Kong Business. The Company had planned to issue new B shares according to the resolution of the First Extraordinary Shareholders General Meeting. However, due to changes in the market conditions, the Third Extraordinary Shareholders General Meeting resolved the resolution to modify the issuance plan from issuance of B shares to A shares, and the Board is now working earnestly to carry out the resolution.

- (3) The draft scheme for the profit allocation of 2001

Net profit of 2001 stood at RMB 160,215,482 (RMB 206,183,269 under International Accounting Standards). RMB 16,855,098 was to be appropriated to the statutory surplus reserve, RMB 16,855,098 to be appropriated to the statutory public welfare reserve, RMB 13,000,000 to be appropriated to the staff and workers' bonus and welfare fund of Changan Suzuki, RMB 43,860,000 to be appropriated to the voluntary reserve fund, and RMB 22,950,000 to be appropriate to the enterprise expansion fund. The distributable profit to shareholders should be the lower of the two in the profit statements prepared by PRC accounting standards and International Accounting Standards respectively, or RMB 161,335,070 (including undistributed profit of RMB 114,639,784 carried forward at the beginning of the period). A dividend of RMB 0.40 per every 10 shares shall be distributed to all the shareholders amounting to RMB 49,066,640. The remaining RMB 112,268,430 shall be carried forward to the next fiscal year.

This profit distribution plan need be discussed in the 2001 Shareholders General Meeting.

(4) The policy for annual profit distribution in 2002

The Company has planned one profit distribution during 2002. The profit to be distributed, after the appropriation of statutory surplus reserve and public welfare reserve, shall not be higher than 30% of the total profit. The payment of dividends shall be made in the form of cash. The Company reserves the right to make adjustments to the profit distribution plans at the best of their judgment and discretion.

IX. Report by the Board of Supervisors

1. In the reporting period, Three meetings of the Board of Supervisors had been held.

- (1) The meeting of the Board of Shareholders was held on April 9, 2001 at Chongqing Changan Hotel. Present at the meeting were 4 out of the 5 supervisors. The meeting debated and passed the following resolution.

① Year 2000 Report by the Board of Supervisors

② On the change of the make-up of the Board of Supervisors

The above resolutions were announced on April 11, 2001 through China Securities, Securities Daily and Hong Kong Business.

- (2) The meeting of the Board of Shareholders was held on May 25, 2001 at Chongqing Changan Hotel. Present at the meeting were 5 out of the 5 supervisors. The meeting debated and passed the following resolution.

① Vote the Chairman of the Board of Supervisors

② the Rule of the Board of Supervisors

The above resolutions were announced on May 26, 2001 through China Securities, Securities Daily and Hong Kong Business.

- (3) The Fifth Meeting of the Second Board of Directors was held on August 9, 2001 at Chongqing Changan Hotel. Present at the meeting were all of the 5 supervisors. The meeting debated and passed the year 2001 interim report and extracts.

The above resolution was announced on August 11, 2001 through China Securities, Securities Daily and Hong Kong Business.

2. The supervisors attended all the meetings of the Board of Directors, and expressed their independent opinions in the meetings and exercised their supervisory rights. The Board of Supervisors carried out the following supervisory functions according to the Company Law and the Articles of Association.

① Supervision of the compliance issues of the Company in its operation and management

The Board of Supervisors performed its supervisory duties through attending the meetings of the Board of Directors. The Board of Supervisors was of the view that the decision-making procedures of the Company had been in compliance with the Company Law and the Articles of Association, a relatively proper internal control system had been established, and there had been no violations to the laws, regulations and the Articles of Association and acts harmful to the interests of the Company by the directors, supervisors and senior managers in fulfilling their duties.

② Review of the financial status of the Company

Through review of the Board of Supervisors, the Board was of the view that the financial statements of the Company had been in compliance with relevant standards and regulations and truly reflected the financial status and operational performance of the Company. The auditor of the Company, PricewaterhouseCoopers Zhong Tian Certified Public Accountants, issued an unqualified audit report.

③ Supervision of the use of proceeds from issuance of shares

Through the review of the Board of Supervisors, the Board was of the view that the proceeds from issuance of shares had been properly used in line with the commitments of the prospectus.

④ Supervision of the acquisition and disposal of assets

There had been no acquisition nor disposal of assets in the reporting period.

⑤ Supervision on the related party transactions

Through review of the Board of Supervisors, the Board was of the view that all related party transactions had been conducted fairly with pricing based on the market prices and there had been no harm done to the interests of the Company.

X. Important Issues

1. Major litigations and arbitrations of the year

① In November 2000, Changan Automobile Co., Ltd. of the Company sued Guangdong Food Industry Co., Ltd. at Chaozhou Intermediate People's Court over disputes on RMB 6,480,000. Conciliation was reached in February 2001 for the outstanding money to be paid by installment.

② In November 2000, the Company sued China Yanxing Dongbei Company at Chongqing No. 1 Intermediate People's Court for disputes over RMB 10,040,000. The case is yet to reach settlement.

③ In October 2001, the Company sued Chongqing Huazheng Materials Company Limited for disputes over RMB 5,524,548. Conciliation was reached in November 2001 for the outstanding money to be

paid in the form of land.

2. There was no acquisition or disposal of asset, nor merger and acquisition in the year.
3. Major related party transactions
For details please refer to the disclosure regarding related parties and related party transactions contained in the notes to the financial statements.
4. Major contracts and the fulfillment of the contracts
 - (1) There were no major entrustment, contracting and leasing by the Company of the assets of other companies and there were no major entrustment, contracting and leasing of the Company's assets by other companies.
 - (2) Major guarantees: the company provided loan guarantee for Chongqing Entry-Exit Inspection and Quarantine Bureau for a total of RMB 10,000,000. The guarantee was joint liabilities guarantee with a term from November 23, 1999 to December 10, 2003. The loan had been paid back in December 2001.
 - (3) Entrusted assets management: during the reporting period, the Company entrusted to the care of the Chongqing Branch of Huaxia Securities RMB 30,000,000 for 12 months from June 2000 to June 2001. The Company has claimed the assets on June 26, 2001, with an earning of RMB 2,970,000.
The Company entrusted to the care of the Chongqing Branch of Huaxia Securities RMB 60,000,000 for 12 months from April 3, 2000 to April 3, 2001. The Company has claimed the assets on May 25, 2001, with an earning of RMB 755,000.
The Company entrusted to the care of Guotai Junan Securities RMB 50,000,000 for a term of 6 months from February 5, 2001 to August 4, 2001. The company had claimed the assets in advance on June 28, 2001, with an earning of RMB 1,835,927.13. The Company entrusted to the care of the Office of Shenyin & Wanguo Securities Chongqing at Chongqing Zhongshan No. 1 Street assets of RMB 5 million for a term of 12 month from September 8, 2000 to September 8, 2001. The assets entrustment term has been extended upon maturity for one more year. In 2002, apart from the RMB 5 million assets entrustment, there is no new asset entrustment plans for the Company.
 - (4) Other major contracts: On April 16, 2001, the Company entered into "Joint-Capital Business Contract" with Changan Automobile Group Limited, Ford Motors and Changan Ford Automobile Company Limited. This event was disclosed on April 26, 2001 through China Securities, Securities Daily and Hong Kong Business.

On November 6, 2001, the Company entered into “Cooperation Agreement for Technical Improvement of 150,000 Changan Alto Sedans” with the Chongqing Branch of China Construction Bank. According to the agreement, the bank shall provide by instalment loans of RMB 1.2 billion to the Company for the technical improvement of 150,000 Changan Alto sedans. Total term of the loans is 8.5 years. The event was disclosed on November 8, 2001 through China Securities, Securities Daily and Hong Kong Business.

5. Commitments

- (1) The issuance of A shares in 2001. The Company had been preparing and finalizing the issuance materials and plans to complete the issuance of A shares in 2002.
 - (2) The preliminary profit allocation plan of 2001. For details of this commitment, please refer to the resolution announcements of the Board of Directors and the shareholders general meeting of the Company.
 - (3) For details of the rectification measures, please refer to seventh section of the annual report.
6. During the reporting period, former auditor of the Company, Shenzhen Zhong Tian Qin Certified Public Accounts, was disqualified and had its business license revoked. The Company engaged PricewaterhouseCoopers Zhongtian CPA to be its auditor for 2001. The auditors remunerations are shown below:

Year	Auditor	Audit fees	Other fees	Note
2001	PricewaterhouseCoopers Zhongtian CPA	RMB 1,080,000	Nil	The Company provided accommodation, but did not bear traveling expenses
2000	Shenzhen Zhong Tian Qin CPA	RMB 800,000	Nil	The Company provided accommodation, but did not bear traveling expenses

The Company had no audit fees payable by the end of the year.

The auditors remuneration of Changan Suzuki, a subsidiary of the Company, paid to the auditors are shown below:

Year	Auditor	Audit fees	Other fees	Note
2001	KPMG CPA	RMB 183,366	RMB 7,000	The Company bore traveling expenses
2000	KPMG CPA	RMB 109,655	Nil	The Company bore traveling expenses

The RMB 7,000 under Other fees were tax consulting fees the Company paid to the auditor and did not affect the CPAs to give their independent opinions. There was no audit fees payable by the end of the year.

7. During the reporting period, the Company, its directors, supervisors and senior managers did not received any audit and investigation, disciplinary punishment, public criticism from China Securities Regulatory Commission nor public censure from the stock exchange. From June 26, 2001 to June 29, 2001, the Chongqing Securities Regulatory Office of China Securities Regulatory Commission conducted routine inspection on the Company and was of the opinion that the minutes of the meetings of the Company were too simple, the Company had been taking advantage of the sales channel of the Group, the debt restructuring and litigations had not been disclosed in the regular reports and there were inappropriate handlings of investment earnings. Rectification advice had been issued to require the Company to improve. Upon receiving the rectification advice, the Company was very concerned and immediately gave notice of the issues to all the directors, supervisors and senior manager. The areas to be rectified were analyzed carefully one and practical rectification measures had been developed and implemented according to the requirements of the regulatory bodies. On August 11, 2001, the Company published the rectification report on China Securities, Securities Daily and Hong Kong Business.
8. In the past year, the Company had been subject to a income tax rate of 15%. In line with the favorable tax policies of the state for the development of the western regions, the income tax rate of the Company shall remain at 15% in 2002.
9. The impact of China's entry into WTO on the future operational activities of the Company: according to the WTO accession legal documents released by the Ministry of Foreign Trade and Economic Cooperation, there are three challenges facing the automobile industry: first, in 2006, the tariffs for imported automobiles shall be lowered from present levels of 70% to 80% to 25%, and tariffs for automobile parts down to 10%; and import quota shall be abolished in 2005. Secondly, the domestic automobile investment policies shall be liberalized. Thirdly, foreign capital shall be allowed into the automobile service and trade field of China. These terms shall lead to significant inflow of imported cars, and reducing automobile prices, which will have a significant impact on the domestic automobile industry. As the Company has been focusing on producing mini vehicles suitable to the needs of the domestic market and after twenty years of development, significant achievements of the Company has been made in the areas of production equipment, manufacturing, production organization, designing and marketing. The mini vehicles of the Company are competitive in terms of price relative to foreign products of the same type and have been exported in batches. With the entry into WTO, the Company can take advantage of the good opportunity of significant decrease in tariffs for parts and make purchase of automobile parts throughout the globe to lower the cost of the products, improve product quality and strengthen the competitiveness of the Company. The entry into WTO shall also expose the Company to the best practices and advanced technologies of international automobile industry, and the Company aims to narrow the gap it has with international standards through all means possible in an effort to improve the comprehensive management quality and competitiveness of the Company. Both the subsidiary Changan Suzuki and Changan Ford in which the Company has investment produce economic cars, and they shall face great impact from imported cars. The Company, fully aware of the problem, shall put in more efforts in reforming and updating

the technologies, improving product quality and lowering costs to heighten their competitiveness and minimize the impact.

10. With the resolution of the Third Meeting of the Second Board of Directors, the Company entered into equity joint venture with Changan Automobile Group Limited, Ford Motors, Ford Motors (China) Company Limited to establish Changan Ford Automobile Company Limited. Changan Ford has a registered capital of US\$ 98 million, and the Company contributed 26% of the total. The event was disclosed on April 11, 2001 through China Securities, Securities Daily and Hong Kong Business. On April 25, 2001, Changan Ford had its opening ceremony and it was disclosed on April 26, 2001 through China Securities, Securities Daily and Hong Kong Business.
11. On June 26, 2001, with the resolution of the First Extraordinary Shareholders General Meeting of 2001, the Company planned to issue no more than 180,000,000 B shares. It was disclosed on June 27, 2001 through China Securities, Securities Daily and Hong Kong Business. On November 19, 2001, after the Third Extraordinary Shareholders General Meeting of 2001 and as a result of the changing market conditions, the Company decided to modify the B share issuance plan to issue no more than 160,000,000 ordinary Renminbi shares. It was disclosed on November 30, 2001 through China Securities, Securities Times and Hong Kong Business.
12. The controlling shareholder, Changan Automobile Group Limited entered into equity mortgage agreement with State Development Bank of China on December 28, 2001 and placed in mortgage 354,333,000 legal person shares of the Company (28.88% of the total) in return for guarantee of RMB 578,200,000 loans for technology improvement the Group has borrowed from the bank. The term for the mortgage is from December 28, 2001 to November 20, 2007. This undertaking has been disclosed on December 30, 2001 through China Securities, Securities Daily and Hong Kong Business.



XI. Financial statements

I. Audit report

Report of the auditors

To the Members of Chongqing Changan Automobile Co., Ltd.

We have audited the accompanying consolidated balance sheet of Chongqing Changan Automobile Co., Ltd. (the Company) and its subsidiaries (the Group) as of 31 December 2001 and the related consolidated income and cash flow statements for the year then ended. These consolidated financial statements set out on pages 2 to 24 are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audit.

We conducted our audit in accordance with International Standards on Auditing. Those Standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion the consolidated financial statements present fairly in all material respects the financial position of the Group as of 31 December 2001 and of the results of its operations and its cash flows for the year then ended in accordance with International Accounting Standards.

PricewaterhouseCoopers China Limited

8 March 2002



II. Financial report

Consolidated income statement

(all amounts in RMB thousands)	Notes	Year ended 31 December	
		2001	2000
Sales	1	7,331,806	6,703,212
Sales tax and surcharge		(233,388)	(195,779)
Net sales		7,098,418	6,311,654
Cost of sales		(5,666,076)	(5,508,831)
Gross profit		1,432,342	998,602
Distribution costs		(793,989)	(516,661)
Administrative expenses		(452,785)	(269,105)
Other operating income and expenses		103,849	23,853
Operating profit	2	289,417	236,689
Finance costs – net	3	(17,617)	(1,966)
Group profit before tax		271,800	234,723
Share of result of associates	10	(11,000)	-
Profit before tax		260,800	234,723
Tax	5	28,157	(25,667)
Group profit before minority interest		288,957	209,056
Minority interest		(82,774)	(74,544)
Net profit		206,183	134,512
Basic earnings per share (RMB per share)	6	0.17	0.11

Consolidated balance sheet

		31 December	31 December
(all amounts in RMB thousands)	Notes	2001	2000
ASSETS			
Non-current assets			
Property, plant and equipment	9	2,333,257	2,375,383
Investments in associated undertakings	10	157,589	-
Other investments	11	54,000	50,000
Other non-current assets	12	29,753	23,724
Deferred tax assets	19	4,950	-
		2,579,549	2,449,107
Current assets			
Inventories	13	709,521	844,967
Receivables and prepayments	14	1,511,231	2,025,435
Short term investment	15	5,450	30,000
Deferred tax assets	19	64,160	-
Amount due from holding company	26	-	495,942
Cash and cash equivalents	16	1,799,394	1,496,241
		4,089,756	4,892,585
Total assets		6,669,305	7,341,692
EQUITY AND LIABILITIES			
Capital and reserves			
Share capital	23	1,226,666	1,226,666
Share premium	23	833,438	833,438
Reserves	25	348,142	247,622
Retained earnings		248,563	189,513
		2,656,809	2,497,239
Minority interest	24	522,797	471,879
Non-current liabilities			
Borrowings	18	180,000	155,250
Retirement benefits	4	27,000	-
		207,000	155,250
Current liabilities			
Trade and other payables	17	2,405,777	2,909,182
Current tax liabilities		355,172	376,892
Borrowings	18	521,750	931,250
		3,282,699	4,217,324
Total liabilities		3,489,699	4,372,574
Total equity and liabilities		6,669,305	7,341,692

On 8 March 2002, Chongqing Changan Automobile Company Limited's Board of Directors authorised these financial statements for issue.

**Consolidated statement of changes in shareholders' equity**

(all amounts in RMB thousands)

	IV. V. ote	Share capital	Share premium	Other reserves	Retained earnings	Total
Year ended 31 December 2000						
Balance at 1 January 2000		1,226,666	833,438	172,222	130,401	2,362,727
Net profit		-	-	75,400	59,112	134,512
Recognised gains or losses		-	-	-	-	-
Balance at 31 December 2000 (Restated)		1,226,666	833,438	247,622	189,513	2,497,239
Year ended 31 December 2001						
Balance at 1 January 2001		1,226,666	833,438	247,622	142,900	2,450,626
Prior year adjustment	7				46,613	46,613
As restated		1,226,666	833,438	247,622	189,513	2,497,239
Dividend relating to 2000		-	-	-	(46,613)	(46,613)
Net profit		-	-	100,520	105,663	206,183
Recognised gains or losses		-	-	-	-	-
Balance at 31 December 2001		1,226,666	833,438	348,142	248,563	2,656,809

**Consolidated cash flow statement**

(all amounts in RMB thousands)

		Year ended 31 December	
	Notes	2001	2000
CASHFLOW FROM OPERATING ACTIVITIES			
Cash received from sales of goods or rendering of services		9,434,039	7,362,932
Refund of tax		23,864	3,466
Other cash received relating to operating activities		516,840	90,607
Sub-total of cash inflow		9,974,743	7,457,005
Cash paid for goods and services		(7,228,979)	(5,127,334)
Cash paid to and on behalf of employees		(300,767)	(176,956)
Payments of all types of taxes		(783,918)	(821,436)
Other cash paid relating to operating activities		(674,899)	(452,905)
Sub-total of cash outflow		(8,988,563)	(6,578,631)
Net cashflow from operating activities	(a)	986,180	878,374
CASHFLOW FROM INVESTING ACTIVITIES			
Net cash received from disposal of property, plant and equipment		785	254
Cash received from return on investments		12,511	-
Sub-total of cash inflow		13,296	254
Cash paid to acquire property, plant and equipment and construction in progress		(218,206)	(264,621)
Cash paid to acquire investment		(168,096)	-
Sub-total of cash outflow		(386,302)	(264,621)
Net cashflow from investing activities		(373,006)	(264,367)
CASHFLOW FROM FINANCING ACTIVITIES			
Proceeds from borrowings		1,190,254	1,125,870
Cash received relating to other financing activities		206,577	-
Sub-total of cash inflow		1,396,831	1,125,870
Cash repayment of amounts borrowed		(1,575,004)	(1,342,641)
Cash payments for interest expenses		(84,901)	(123,680)
Cash payments for distribution of dividends or profits	8	(46,613)	-
Other cash paid relating to investing activities		(334)	(906)
Sub-total of cash outflow		(1,706,852)	(1,467,227)
Net cashflow from financing activities		(310,021)	(341,357)
Net Increase / (Decrease) in Cash and Cash Equivalents	(b)	303,153	272,650



Notes to the statement of cashflows

(a) Reconciliation of Profit Before Tax to Cashflows from Operating Activities

	Year ended 31 December	
	2001	2000
Profit before tax	260,800	234,723
Provision for bad debt or bad debt written off	92,031	5,925
Provision for stocks	(952)	-
Depreciation of property, plant and equipment	285,819	206,672
Amortization of other non-current assets	3,988	56,981
Loss on disposal of property, plant and equipment	4,972	6,689
Financial expenses	17,617	74,680
Investment income	(12,511)	(753)
Share of results of associates	11,000	-
(Increase) / Decrease in stocks	193,884	(211,252)
(Increase) / Decrease in operating receivables	707,687	(473,437)
Increase / (Decrease) in operating payables	(578,155)	978,146
Net cashflow from operating activities	986,180	878,374

(b) Net Increase in Cash and Cash Equivalents

Cash at the end of the year	1,799,394	1,496,241
Less: Cash at the beginning of the year	1,496,241	1,223,591
Net Increase / (Decrease) in Cash and Cash Equivalents	303,153	272,650

(c) Cash and cash equivalents

Cash and cash equivalents consist of cash at bank and in hand. Cash and cash equivalents included in the consolidated statement of cash flows comprise the following consolidated balance sheet amounts:

Cash at bank and in hand	1,799,394	1,496,241
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Company Information

The financial statements are presented in Renminbi (“RMB”) rounded to nearest thousands.

Chongqing Changan Automobile Company Limited (hereafter referred to as “the Company”) was established in the People’s Republic of China (“PRC”) under the Company Law of the PRC on 31 October 1996. As a joint stock limited company, the company issued 506,190,000 shares to its sole sponsor Changan Automobile Group Company Limited (hereafter referred to as “CAC”) in exchange for mini-automobile and engine manufacturing equipment and related assets; the company also issued 250,000,000 B shares to overseas investors, the total share capital was RMB 756,190 on the date of establishment. The Legal Representative’s Operating License issued by Chongqing Industrial and Commercial Administrative Bureau is Yu-Jin No. 28546236-3.

On 19 May 1997, with the approval of China Securities Regulatory Commission, the company issued 120,000,000 A shares to domestic public investors, thereby increasing the total share capital to RMB 876,190.

On 26 June 1998, the Company issued bonus shares on the basis of 4 shares for each 10 shares to the existing 876,190,000 shares in issue as at 31 December 1997. The bonus shares were issued as a distribution from the share premium account within shareholders’ equity. As a result, RMB 350,476 was from transferred from the share premium account to share capital increasing share capital to RMB 1,226,666.

The business scope of the company includes the development, manufacture and sale of automobiles, engines and automobile related parts, dies and tools. The Company is also involved in the import-export business, mechanical installation projects and technological consulting services.

Accounting policies

The principal accounting policies adopted in the preparation of these consolidated financial statements are set out below:

A Basis of preparation

The financial statements are presented in Renminbi (“RMB”) rounded to nearest thousands.

The consolidated financial statements have been prepared in accordance with International Accounting Standards. The consolidated financial statements have been prepared under the historical cost convention except as disclosed in the accounting policies below.

The accounting policies have been consistently applied by the Group and are consistent with those used in the previous year.

B Group accounting

(1) Subsidiary undertakings

Subsidiary undertakings, which are those entities controlled by the Group. Control exists when the Group has the power, directly or indirectly, to govern the financial and operating policies of an enterprise so as to obtain benefits from its activities. The financial statements of the subsidiaries are included in the consolidated financial statements from the date that control effectively commences until the date that

control effectively ceases. All intercompany transactions, balances and unrealised gains on transactions between group companies are eliminated; unrealised losses are also eliminated unless cost cannot be recovered. Where necessary, accounting policies for subsidiaries have been changed to ensure consistency with the policies adopted by the Group.

B Group accounting (continued)

(2) Associated undertakings

Investments in associated undertakings are accounted for by the equity method of accounting. These are undertakings over which the Group has between 20% and 50% of the voting rights, or over which the Group has significant influence, but which it does not control. Unrealised gains on transactions between the Group and its associated undertakings are eliminated to the extent of the Group's interest in the associated undertakings; unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the assets transferred. Equity accounting is discontinued when the carrying amount of the investment in an associated undertaking reaches zero, unless the Group has incurred obligations or guaranteed obligations in respect of the associated undertaking.

(3) Foreign currency translation

Foreign currency transactions are accounted for at the exchange rates, as quoted by the People's Bank of China, prevailing at the transaction dates; gains and losses resulting from the settlement of such transactions and from the translation of monetary assets and liabilities denominated in foreign currencies, are recognised in the income statement, with the exception of the gains and losses relating to transactions referred to below.

Exchange differences directly relating to the purchase or construction of property, plant and equipment before they are put in use are capitalized as part of the cost of the assets.

C Property, plant and equipment

(1) Owned assets

Property, plant and equipment are stated at cost or 1995 valuation (see note 9) less accumulated depreciation. The cost of self-constructed assets includes the cost of materials, direct labour and an appropriate proportion of production overheads.

Where an item of property, plant and equipment comprises major components having different useful lives, they are accounted for as separate items of property, plant and equipment.

All direct and indirect costs relating to the acquisition or construction of property, plant and equipment including interest costs on related borrowed funds during the construction period are capitalized as property, plant and equipment.

(2) Subsequent expenditure

Expenditure incurred to replace a component of an item of property, plant and equipment that is accounted for separately, is capitalized with the carrying amount of the component being written off. Other subsequent expenditure is capitalized only when it increases the future economic benefits embodied in the item of property, plant and equipment. All other expenditure is recognized in the statement of income as an expense as incurred.

(3) Depreciation

Depreciation is calculated on the straight-line method to write off the cost of each asset, or the revalued amounts, to their residual values over their estimated useful life as follows:

Land	48-60 years
Buildings	20-40 years
Plant and machinery	12-20 years
Equipment and motor vehicles	8 years
Others	5-22 years

C Property, plant and equipment (continued)**(3) Depreciation**

Amortization of the land use right owned by Changan Suzuki is calculated on a straight-line basis to write off the cost over the useful life of 30 years.

(4) Construction in progress

Construction of a building or plant is considered to be completed on the date when substantially all the activities necessary to prepare the asset for its intended use are complete notwithstanding any delays in the issue of the relevant commissioning certificate by the appropriate PRC authorities.

Interest costs on borrowings to finance the construction of property, plant and equipment are capitalised, during the period of time that is required to complete and prepare the asset for its intended use. All other borrowing costs are expensed.

(5) Disposal and impairment

Where the carrying amount of an asset is greater than its estimated recoverable amount, it is written down immediately to its recoverable amount.

Gains and losses on disposals are determined by comparing proceeds with carrying amount and are included in operating profit.

D Investments**(1) Short term investment**

Short term investments are bought with the intention of disposal within 12 months. There are stated at fair value. Realised gains and losses arising from disposal are included in the income statement in the period in which they arise.

(2) Other investment

Other investment comprises participation in a company in which the Group neither holds, directly or indirectly, 20% or more of the voting powers nor exercises significant influence. The investment is carried at cost less any amounts written off to recognize other than temporary declines in the value of the investment. On disposal of an investment, the difference between the net disposal proceeds and the carrying amount is charged or credited to the statement of income.

E Other non-current assets

Other non-current assets include industrial property rights and proprietary technology.

Industrial property rights and proprietary technology are stated at cost and amortized on a straight- line

basis over a 10 year expected beneficial period starting from the date of use or over the actual production output.

F Leases

- (1) A group company is the lessee

Leases of land and buildings where 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 the income statement on a straight-line basis over the period of the lease.

F Leases (continued)

- (2) A group company is the lesser

Assets leased out under operating leases are included in property, plant and equipment in the balance sheet. They are depreciated over their expected useful lives on a basis consistent with similar owned property, plant and equipment. Rental income (net of any incentives given to lessees) is recognised on a straight-line basis over the lease term.

G Inventories

Inventories are stated at the lower of cost or net realisable value. Cost is determined by the weighted average 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) but excludes borrowing costs. Net realisable value is the estimated selling price in the ordinary course of business, less the costs of completion and selling expenses.

H Trade receivables

Trade receivables are carried at original invoice amount less an estimate made for doubtful receivables based on a review of all outstanding amounts at the year end. Bad debts are written off when identified.

I Cash and cash equivalents

Cash and cash equivalents are carried in the balance sheet at cost and comprise cash on hand and deposits in banks.

J Share capital

- (1) Share capital consists of A and B shares.
- (2) External costs directly attributable to the issue of new shares, other than on a business combination, are shown as a deduction, net of tax, in equity from the proceeds. Share issue costs incurred directly in connection with a business combination are included in the cost of acquisition.

K Interest-bearing loans and borrowings

Interest-bearing loans and borrowings are recognized initially at cost, net of any transaction costs incurred. Subsequent to initial recognition, interest-bearing loans and borrowings are stated at amortized cost with any difference between cost and redemption value being

recognized in the statement of income over the period of the borrowings.

When borrowings are repurchased or settled before maturity, any difference between the amount repaid and the carrying amount is recognized immediately in the statement of income.

L Income tax

Income tax on the profit or loss for the year comprises current and deferred tax. Income tax is recognized in the statement of income except to the extent that it relates to items recognized directly to equity, in which case it is recognized in equity.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantially enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years.

L Income tax (continued)

Deferred tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. The principal temporary differences arise from provisions for receivables, price reduction compensations and other post retirement benefits. The amount of deferred tax provided is based on the expected manner of realization or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantially enacted at the balance sheet date.

A deferred tax asset is recognized only to the extent that it is probable that future taxable profits will be available against which the unused tax losses and credits can be utilized. Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realized.

M Employee benefits

Contributions to retirement schemes are recognized as an expense in the statement of income as incurred. The Group is required to make contributions for its employees to various retirement schemes run by the Chongqing Municipal Government in accordance with the rules and regulations thereof. The Group's liability with regard to this retirement scheme is limited to its contribution that is calculated based on the amount of total salaries and wages incurred during the year.

The pension obligation not covered by the abovementioned retirement scheme is estimated based on the present value of the estimated future cash outflows discounted using interest rates typically available to the company through bank deposit accounts.

N Warranty

A provision for warranties is recognized when the underlying products or services are sold. The provision is based on past history of the level of repairs, service and replacements.

O Revenue recognition

Sales are recognised upon delivery of products and customer acceptance, if any, or on the performance of

services. Sales are shown net of sales taxes and discounts, and after eliminating sales within the Group.

Other revenues earned by the Group are recognised on the following bases:

Royalty and rental income – on an accrual basis.

Interest income – on an accrual basis.

Dividend income – when the Group's right to receive payment is established.

P Dividends payable

Dividends are recognized in the period in which they are approved by the shareholders.

Q Net finance costs

Net finance costs comprise interest payable on short-term loans, interest receivable on deposits, and foreign exchange gains and losses. Interest income is recognized in the statement of income as it incurred, taking into account the effective yield on the assets. All interest and other costs incurred in connection with borrowings are expensed as incurred as part of net financing costs.

R Research and development

Expenditure on research activities, undertaken with the prospect of gaining new scientific or technical knowledge and understanding, is recognized in the statement of income as an expense as incurred. Expenditure on development is recognized in the statement of income as an expense as incurred

S Financial instrument

Financial instruments carried on the balance sheet include cash and cash equivalents, investments, receivables, payables and borrowings. The particular recognition methods adopted are disclosed in the individual policy statements associated with each item.

The Group adopted IAS39 at 1 January 2001 with no resulting material effect on the Group consolidated financial position, income statement or cash flow.

Notes to the consolidated financial statements

(In the notes all amounts are shown in RMB thousands unless otherwise stated)

1	Analysis of sales by category	2001	2000
	Automobiles	7,030,870	6,562,895
	Engines	202,280	-
	Industrial activities	42,960	64,388
	Automobile parts	55,696	75,929
		<u>7,331,806</u>	<u>6,703,212</u>

The group is engaged in the development, manufacturing and sale of automobiles, engines and automobile related parts within the definitions of financial statement presentation, as a single segment. Sales are made principally in the PRC.

2 Operating profit

The following items have been included in arriving at operating profit :

	2001	2000
Depreciation on property, plant and equipment (Note 9)	285,819	250,879
Impairment of property, plant and equipment (Note 9)	10,064	-



	Loss on disposal of property, plant and equipment	4,972	6,582
	Repairs and maintenance expenditure on property, plant and equipment	56,821	67,084
	Amortisation of other non-current assets (Note 12)	3,660	5,913
	Research and development expenditure	123,579	82,435
	Operating lease rentals payable – property	9,317	9,317
	Inventory		
	– provision for loss	27,585	-
	– reversal of inventory provision	(28,537)	-
	Trade receivables –impairment charge for bad and doubtful debts	93,673	5,925
	Staff costs (Note 4)	302,076	210,328
	Investment Income	12,511	753
3	Finance costs – net	2001	2000
	Interest expense	(56,817)	(76,323)
	Interest income	42,924	81,087
	Net foreign exchange losses	(96)	(3,147)
	Others	(3,628)	(3,583)
		<u>(17,617)</u>	<u>(1,966)</u>
4	Staff costs	2001	2000
	Wages and salaries	234,821	176,162
	Social security costs	10,004	10,027
	Pension costs – defined contribution plans	24,251	24,139
	Other retirement benefits	33,000	-
		<u>302,076</u>	<u>210,328</u>
<p>The average number of employees in 2001 was 8,360 (2000: 9,055), 434 of whom (2000: 977) were part-time.</p> <p>The employees of the Group participate in various retirement benefit plans organized by the relevant municipal and provincial governments under which the Group was required to make monthly defined contributions to this plan.</p> <p>Obligation in respect of retirement benefits of RMB 33,000 not covered by the abovementioned retirement scheme is the present value of the unfunded obligations include non current portion of RMB 27,000(2000: nil). The current portion of RMB 6,000 (2000: nil) have been included under other payables. This obligation is effective from 31 December 2001.</p>			
5	Tax	2001	2000
	Current tax	40,953	25,667
	Deferred tax (Note 19)	(69,110)	-
		<u>(28,157)</u>	<u>25,667</u>

The tax on the Group's profit before tax differs from the theoretical amount that would arise using the tax rate of the Company as follows:



	2001	2000
Profit before tax	260,800	234,723
Tax calculated at a tax rate of 15% and 7.5% (2000 : 15% and 7.5%)	42,825	25,667
Income not subject to tax	(13,310)	-
Deductible capital expenditure	(22,730)	-
Expenses not deductible for tax purposes	(34,942)	-
Tax (credit)/ charge	(28,157)	25,667

The income tax rate applicable to the Company and its subsidiaries is 15%. As approved by the local tax authorities, the Company and its subsidiaries, other than Chongqing Changan Suzuki Automobile Company ("Changan Suzuki"), file a consolidated income tax return. No provision for income tax has been made as the Company and its subsidiaries, other than Changan Suzuki, sustained a combined loss for the year prior to the share in the profits of Changan Suzuki.

The income tax rate applicable to Changan Suzuki is 15%. Changan Suzuki is fully exempted from income tax for two years starting from the first profitable year, after utilisation of tax loss carry forwards, followed by a 50% exemption for the following three years. This is the second year of 50% tax reduction and the corporate income tax has been provided at the rate of 7.5% based on the taxable income for the year.

6

Earnings per share

Basic earnings per share is calculated by dividing the net profit attributable to shareholders by the weighted average number of ordinary shares in issue during the year.

	2001	2000
Net profit attributable to shareholders (RMB'000)	206,183	134,512
Weighted average number of ordinary shares in issue (thousands)	1,226,666	1,226,666
Basic earnings per share (RMB per share)	0.17	0.11

7

Prior year adjustment

Pursuant to a resolution of the company's board of directors on 9 April 2001, dividend of RMB 0.38 (tax included) for every share is proposed in respect of the year ended 31 December 2000. The company has recorded the liability of RMB 46,613 as at 31 December 2000.

The PRC regulations requires that the appropriation of the net profit of a period depends on the decision of the shareholders. The proposed appropriation by the board of directors did not meet the definition of a provision in IAS 37, in that it is not a "present obligation" of the company. Hence, the proposed appropriation for dividend payments should not be accrued in the year in which the net profit arose.

A prior year adjustment was made to record the dividend of RMB 46,613 in 2001.

8

Dividend per share



At the Annual General Meeting on 8 March 2002, a dividend in respect of 2001 of RMB 0.40 per share amounting to a total dividend of RMB 49,067 is to be proposed. These financial statements do not reflect this dividend payable, which will be accounted for in shareholders' equity as an appropriation of retained earnings in the year ending 31 December 2002. The dividends declared in respect of 2000 and 1999 was RMB 46,613 and nil, respectively.

9 Property, plant and equipment

	Construction in progress	Land & buildings	Plant & machinery	Vehicles	Others	Total
Year ended 31 December 2000						
Opening net book amount	430,965	502,601	1,506,563	13,844	8,178	2,462,151
Additions	282,495	37,916	263,848	3,913	10,136	598,308
Transfers	(419,695)	-	-	-	-	(419,695)
Disposals	-	-	(13,035)	(1,236)	(231)	(14,502)
Depreciation charge (Note 2)	-	(18,599)	(224,733)	(1,959)	(5,588)	(250,879)
Closing net book amount	293,765	521,918	1,532,643	14,562	12,495	2,375,383
At 31 December 2000						
Cost or valuation	293,765	619,349	2,313,766	24,949	27,192	3,279,021
Accumulated depreciation	-	(97,431)	(781,123)	(10,387)	(14,697)	(903,638)
Net book amount	293,765	521,918	1,532,643	14,562	12,495	2,375,383

9 Property, plant and equipment (continued)

	Construction in progress	Land & buildings	Plant & machinery	Vehicles	Others	Total
Year ended 31 December 2001						
Opening net book amount	293,765	521,918	1,532,643	14,562	12,495	2,375,383
Additions	246,056	40,316	113,034	6,424	12,313	418,143
Transfers	(152,637)	-	-	-	-	(152,637)
Disposals	-	(3,579)	(6,788)	(1,289)	(93)	(11,749)
Impairment charge (Note 2)	-	-	(10,050)	(14)	-	(10,064)
Depreciation charge (Note 2)	-	(15,824)	(261,247)	(2,506)	(6,242)	(285,819)
Closing net book amount	387,184	542,831	1,367,592	17,177	18,473	2,333,257
At 31 December 2001						
Cost or valuation	387,184	656,086	2,420,012	30,084	39,412	3,532,777
Accumulated depreciation	-	(113,255)	(1,052,420)	(12,907)	(20,939)	(1,199,520)
Net book amount	387,184	542,831	1,367,592	17,177	18,473	2,333,257

During 2001, interest expenses of RMB4,806 (2000: RMB31,856) were capitalised in the cost of construction in progress.

All of the Group's buildings are located in PRC. The title to buildings of net book value RMB 106,501 are in the process of being transferred to Changan Suzuki.

Except for the land use right owned by Changan Suzuki with a period of 30 years, the Chongqing Municipal Government transferred the land use rights of the land on which the Group's buildings are situated to CAC. The Company has entered into a leasing agreement with CAC for the land use rights upon the establishment of the Company for 50 years.

As at 31 December 2001, equipment with a net book value of RMB 493,384 has been pledged as securities for short-term loans (see note 18).

As at 31 December 2000, buildings with a net book value of RMB 213,277 and equipment with a net value of RMB 634,062 have been pledged as securities for long-term loans (see note 18) and short-term loans (see note 18) respectively.

The Company was established in PRC on 31 October 1996 as a joint stock limited company as part of the restructuring of CAC that was a state-owned enterprise. On the same date, the principal business undertakings of CAC together with the relevant assets and liabilities were taken over by the Company. As required by the relevant PRC rules and regulations a valuation of the assets and liabilities to be injected into the Company was carried out at 31 December 1995 and approved by the State-owned Assets Administration Bureau and the injected assets and liabilities were reflected in the accounts on this basis. The 1995 valuation was a one-off exercise that established the deemed cost of the property, plant and equipment injected on the formation of the Company. As a result, the directors consider that the requirements of International Accounting Standard Number 16 "Property, Plant and Equipment" with respect to assets at carrying amounts other than cost less accumulated depreciation are not applicable.

10

Investments in associated undertakings

	2001	2000
At the beginning of year	-	-
Acquisition	168,589	-
Share of results	(11,000)	-
At end of year	157,589	-

The principal associated undertakings, both of which are unlisted, are:

	Country of incorporation	% interest held
Changan Ford Automobile Corporation.,Ltd.	China	26%
Chongqing Changan Information Technology Co.,Ltd.	China	21.43%

The abovementioned associated undertakings are still in preoperating stage.

11

Other investments

	2001	2000
Southwestern Securities Co., Ltd.	50,000	50,000
Others	4,000	-
Total	54,000	50,000



Southwestern Securities Co., Ltd. ("Southwestern Securities"), is a limited liability company established in PRC as approved by the China Securities Regulatory Committee. The business of Southwestern Securities includes securities purchases and sales, securities underwriting, and investment consulting. The Group holds an equity interest of 4.43% in Southwestern Securities.

12

Other non-current assets

Year ended 31 December 2000

Opening net book amount	28,074
Additions	1,563
Amortisation charge (Note 2)	(5,913)
Closing net book amount	23,724

At 31 December 2000

Cost	33,181
Accumulated amortisation	(9,457)
Net book amount	23,724

Year ended 31 December 2001

Opening net book amount	23,724
Additions	9,689
Amortisation charge (Note 2)	(3,660)
Closing net book amount	29,753

At 31 December 2001

Cost	42,870
Accumulated amortisation	(13,117)
Net book amount	29,753

The above represents production technology for the advanced model of the Alto mini-sedan and "Changan Star" automobiles transferred from Suzuki Motor Corporation.

13

Inventories

	2001	2000
Raw materials (at net realisable value)	284,458	301,024
Work in progress (at cost)	36,147	42,936
Finished goods (at net realisable value)	384,174	494,999
Consumables (at cost)	4,742	6,008
	709,521	844,967

14

Receivables and prepayments

	2001	2000
Trade receivables	1,219,148	1,565,924
Less : Provision for bad and doubtful debts	(90,664)	(106,818)
Trade receivables – net	1,128,484	1,459,106
Notes receivables	267,784	170,371
Advances to suppliers	22,759	122,366
Other receivables	92,204	273,592
	1,511,231	2,025,435

15 Short term investments

As of 31 December 2001, short term investment comprise principally marketable equity securities of RMB 450 (2000:nil) and funds placed with investment companies of RMB 5,000 (2000: RMB 30,000)

**16 Cash and cash equivalents**

	2001	2000
Cash at bank and in hand	1,799,394	1,496,241

As of 31 December 2001, cash balances of RMB83,581 were held as the guaranteed deposits for the notes payable and cash balances of RMB 272,195 can only be used for specific projects. As of 31 December 2000, cash balances of RMB150,000 were held as security for the short term bank loans.

17**Trade and other payables**

	2001	2000
Trade payables	1,124,129	1,297,364
Notes payable	552,794	1,172,834
Other payables	152,388	133,616
Accrued expenses	112,755	85,473
Accrued sales compensation	322,710	67,800
Accrued payroll and welfare	72,278	76,397
Advances from customers	68,723	75,698
	<u>2,405,777</u>	<u>2,909,182</u>

18**Borrowings**

	2001	2000
Current		
Bank borrowings		
- unsecured	265,000	296,500
- secured	256,750	634,750
	<u>521,750</u>	<u>931,250</u>
Non-current		
Bank borrowings		
- secured	180,000	155,250
	<u>180,000</u>	<u>155,250</u>
Total borrowings	701,750	1,086,500

18**Borrowings (continued)**

Current bank loans as at 31 December 2001 bear interest at rates ranging from 5.58% to 5.85% per annum (2000: 4.65% to 5.36%). Of these loans, RMB120,000 (2000: RMB484,750) were secured by production equipment with net book value of RMB493,384 (2000: RMB 634,062) and RMB 60,000 were guaranteed by Southwest Ordnance Industries corp. Other bank loans were guaranteed by Letter of Credit.

Non-current bank loans bear interest at rate 6.03% (2000: 6.03-6.21%) and were guaranteed by Southwest Ordnance Industries corp. At 31 December 2000, non-current bank loans of RMB 150,000 were secured by buildings with net book value of RMB213,277.

Maturity of non-current borrowings:

	2001	2000
Between 1 and 2 years	-	75,250
Between 2 and 5 years	80,000	80,000
Over 5 years	100,000	-
	<u>180,000</u>	<u>155,250</u>

19**Deferred income taxes**

Deferred income taxes are calculated in full on temporary differences under the liability method using a principal tax rate of 15%.

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

	2001	2000
At beginning of year	-	-
Income statement charge (Note 5)	69,110	-
At end of year	69,110	-
Current	64,160	-
Non-current	4,950	-
	69,110	-

Deferred income tax arose from temporary differences from provisions (RMB 49,785) and impairment of assets (RMB 19,325).

20 Financial assets and liabilities

Financial assets of the Group include cash at bank and in hand, accounts receivable and notes receivable, short term investments and amounts due from holding company. Financial liabilities of the Group include interest bearing loans and borrowings, accounts payable and notes payable. The Group and the Company do not hold or issue financial instruments for trading purposes.

(i) Credit risk

Cash is placed with a group of banks with good credit ratings. Credit risk on accounts receivable, notes receivable and amount due from holding company have already been accounted for in the financial statements as they are shown net of provisions for bad and doubtful debts.

(ii) Interest risk

The company's income and operating cash flows are substantially independent of changes in market interest rates. The interest rates and terms of repayment of the interest bearing loans and borrowings of the Group are disclosed in Notes 18. The interest rates of the amount due from holding company are disclosed in Note 26 (v).

20 Financial assets and liabilities (continued)

(iii) Fair value

The fair values of cash at bank and in hand, accounts receivables, notes receivable, short term investments, amounts due from holding company, loans and borrowings, accounts payable and notes payable are not materially different from their carrying amounts.

21 Contingencies

Contingent liabilities

At 31 December 2001, the company did not have any significant contingent liabilities.

22 Commitments

Capital commitments



Capital expenditure for purchase of property, plant and equipment at the balance sheet date but not recognised in the financial statements is as follows:

	2001	2000
Contracted	610,520	20,420
Authorised but not contracted	2,070,190	1,819,820
	<u>2,680,710</u>	<u>1,840,240</u>

Operating lease commitments – where a group company is the lessee

The future aggregate minimum contracted for at the balance sheet date but not recognised in the financial statements is as follows:

	2001	2000
Not later than 1 year	37,267	-
Later than 1 year and not later than 5 years	69,290	-
	<u>106,557</u>	<u>-</u>

23 Share capital and share premium

	2001	2000
Share capital		
876,666,000 A shares of par value RMB1 each	876,666	876,666
350,000,000 B shares of par value RMB1 each	350,000	350,000
At 31 December 2001	<u>1,226,666</u>	<u>1,226,666</u>
Share premium		
Balance at 1 January and at 31 December	<u>833,438</u>	<u>833,438</u>

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

24

Minority interests

	2001	2000
At beginning of year	471,879	446,335
Share of net profit of subsidiaries	82,774	74,544
Dividend paid	(31,856)	(49,000)
At end of year	<u>522,797</u>	<u>471,879</u>

25

Reserves

Retained by the Company

Retained by Changan
Suzuki

Total



	Statutory reserve	Statutory common reserve fund	Reserve fund	Enterprise expansion fund	
Year ended 31 December 2000					
Balance at 1 January 2000	47,351	47,351	54,060	23,460	172,222
Transfers from statement of income	12,710	12,710	35,190	14,790	75,400
Balance at 31 December 2000	60,061	60,061	89,250	38,250	247,622
Year ended 31 December 2001					
Balance at 1 January 2001	60,061	60,061	89,250	38,250	247,622
Transfers from statement of income	16,855	16,855	43,860	22,950	100,520
Balance at 31 December 2001	76,916	76,916	133,110	61,200	348,142

Transfers from the statement of income to statutory reserve and statutory public welfare fund were made in accordance with the relevant statutory rules and regulations and the Articles of Association of the Company and Changan Suzuki.

Statutory reserve

According to the Company's Articles of Association, the Company is required to transfer 10% of its profit after taxation, as determined under PRC accounting regulations, to the statutory reserve until the reserve balance reaches 50% of the registered capital.

The statutory reserve can be used to make good previous years' losses, if any, and may be converted into share capital by the issuance of new shares to shareholders in proportion to their existing shareholdings. The transfer to this reserve must be made before the distribution of dividends to shareholders. No cash distribution is allowed other than in liquidation of the Company.

Statutory common reserve fund

According to the Company's Articles of Association, the Company is required to transfer 5% to 10% of its profit after taxation, as determined under PRC accounting regulations, to the statutory common reserve fund.

Statutory common reserve fund (continued)

The statutory public welfare fund can only be utilized on capital items for the collective benefits of the Company's employees such as the construction of dormitories, canteen and other staff welfare facilities. The transfer to this reserve must be made before distribution of dividends to shareholders. This reserve is non-distributable other than in liquidation of the Company.

Reserve fund

According to the resolution of the Board of Directors of Changan Suzuki for the 2001 profit

appropriation, the amount of RMB86,000 was transferred to reserve fund from the distributable profits at 31 December 2001.

The reserve fund can be used for Changan Suzuki's working capital purposes and to make good losses incurred. The reserve fund can also be used to increase capital of Changan Suzuki. The transfer to this reserve must be made before the distribution of dividends to investors of Changan Suzuki. No cash distribution is allowed other than in liquidation of Changan Suzuki.

Enterprise expansion fund

According to the resolution of the Board of Directors of Changan Suzuki for the 2001 profit appropriation, the amount of RMB 45,000 was transferred to enterprise expansion fund from the distributable profits at 31 December 2001.

The enterprise expansion fund can be used for Changan Suzuki's business development purposes and for working capital purposes. The enterprise expansion fund can also be used to increase capital of Changan Suzuki. The transfer to this reserve must be made before the distribution of dividends to investors of Changan Suzuki. No cash distribution is allowed is other than in liquidation of Changan Suzuki.

26

Related party transactions

The directors of the Company consider CAC is the holding company.

The following transactions were carried out with related parties:

i) Sales of goods and services

	2001	2000
Sales of goods:		
Nanjing Changan Automobile Co.,Ltd.	123,971	42,037
Related companies of CAC	2,459,030	2,201,596
	<u>2,583,001</u>	<u>2,243,633</u>

ii) Purchases of goods and services

	2001	2000
Purchases of goods:		
Chongqing Lier Changan Automobile Decorating Co.,Ltd	114,753	96,843
Chongqing Changan Kuayue Automobile Co.,Ltd	42,615	40,246
Changan Automobile Manufacturing Factory	52,059	50,423
Related companies of CAC	257,837	399,276
Chongqing Jiangli Machinery Factory	44,294	29,970
Chongqing Jiangchuan Machinery Factory	27,348	29,268
Chongqing Jiangchao Engine Industry Corp.	8,883	8,795
Suzuki Motor Corporation	215,297	175,974
	<u>763,086</u>	<u>830,795</u>

26

Related party transactions (continued)

ii) Purchases of goods and services (continued)

	2001	2000
Purchases of services:		
CAC		
Trademark fee	9,182	8,414
Land use right fee	9,317	9,317
Management services	115,515	111,105

Information gathering fee	6,800	-
	140,814	128,836

iii) Year-end balances arising from sales/purchases of goods/services

	2001	2000
Receivables from related parties:		
Related companies of CAC	883,744	1,328,186
Nanjing Changan Automobile Co.,Ltd.	405	23,150
	884,149	1,351,336

iii) Year-end balances arising from sales/purchases of goods/services

Payables to related parties:		
Chongqing Lier Changan Automobile Decorating co.,Ltd	41,493	36,055
Chongqing Changan Kuayue Automobile Co.,Ltd	16,523	15,029
Changan Automobile Manufacturing Factory	345	4,546
Chongqing Jiangli Machinery Factory	6,689	3,122
Chongqing Jiangchuan Machinery Factory	3,018	629
Chongqing Jiangchao Engine Industry Corporation	1,032	1,666
Suzuki Motor Corporation	10,107	6,689
	79,207	67,736

iv) Directors' remuneration

In 2001 the total remuneration of the directors was RMB31 (2000 : RMB65).

v) Amount due from holding company

As at 31 December 2001, there was no loan receivable from CAC (2000:RMB495,942). Interest was payable by CAC on loans due at 6% (2000:6%), the interest charged was RMB11,812 (2000: RMB43,495).

27**Principal subsidiary undertakings**

Entity	Country of incorporation	Principal activities
Chongqing Changan Import and Export Company (100%)	China	Import and export of automobiles wholesale and retail of automobile spare parts
Chongqing Changan Automobile Sales Company (100%)	China	Sale of automobiles, engines and spare parts
Jiangling Electro-mechanical Company (100%)	China	Wholesale and retail of automobile spare parts
Chongqing Changan Suzuki Automobile Company (51%)	China	Manufacture and sale of automobiles and engines

28**Post balance sheet events**

On 8 March 2002, approval was given by the Board of Directors for an agreement to be made between the company and CAC for the acquisition of 13 sales companies at a consideration of RMB 4,040.

On 8 March 2002, approval was given by the Board of Directors for a new management services agreement to be made between the company and CAC. Under the terms of this agreement annual amounts payable to CAC for annual building rental, land use, road maintenance are RMB16,618, RMB 2,824 and RMB1,000 respectively. All other expenses covered under this agreement will be payable as reimbursements of actual expenses incurred by CAC.

29**Classification of comparative figures**

- (i) **Inventories**
Inventories increased by RMB 95,661 due to materials received but not booked thereby decreasing advance payments by RMB 47,475 to suppliers and increasing trade payables by RMB 48,184. Inventories of RMB 217,851 were overstated and adjusted against trade creditors.
- (ii) **Short term investment**
Short term investment of RMB 30,000 were included in receivables and prepayments and reclassified to short term investment.
- (iii) **Current tax liabilities**
Input value added taxes of RMB 33,910 were included in receivables and prepayments and reclassified to current tax liabilities.
- (iv) **Construction in progress**
Materials for installation of RMB 48,186 were included as advance payments to suppliers and reclassified to fixed assets.
- (v) **Accumulated depreciation**
Fixed assets accumulated depreciation of RMB 6,124 was included under other non-current assets and reclassified Fixed assets accumulated depreciation.
- (vi) **Amount due from holding company**
RMB 495,942 due from holding company was reclassified from trade and other payables.
- (vii) **Minority interest**
Minority interest of RMB 871 was reclassified to share premium.
- (viii) **Other non-current assets**
Fixed assets of RMB 12,248 included under other non-current assets was reclassified to fixed assets.



Impact of IAS adjustments on the consolidated profit after taxation and shareholders' fund

	Net assets	Net profit
As reported in the accounts of the Group under PRC	2,574,311	160,215
8. Staff and worker's bonus and welfare fund of Changan Suzuki charged against profit after taxation	-	(13,000)
9. Amortisation of goodwill arising on consolidation	(18,029)	858
10. Adjustment of amortisation of pre-operating expenses in Changan Suzuki	1,227	-
11. Reversal of revaluation surpluses of long term assets relating to the revaluation made in 1995	(7,877)	-
12. Deferred tax assets	69,110	69,110
13. Dividend declared	49,067	-
14. Equity share of results of associate	(11,000)	(11,000)
As restated in conformity with IAS	2,656,809	206,183



XII. Documents for inspection

- I. Accounting statements with signatures and stamps of the legal representative, the leader in charge of the accounting and the leader of accounting departments.
- II. The original audit report with the stamp of the CPA firm and the signature and stamp of the Certified Public Accountant.
- III. All the original documents and manuscripts of the Company which has been disclosed in the reporting period in the newspapers designated by China Securities Regulatory Commission.
- IV. Annual reports published in other securities markets.

Chairman of the Board of Directors:

General Manager:

Chongqing Changan Automobile Company Limited

March 8, 2002