

Chongqing Changan Automobile Company Limited



2002 Annual Report

I. Important note and contents:

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.

Mr. Zhang Xinyu, Chen Qing, Wang Chongsheng, Keijin Yamauchi, Toshiaki Hashimoto and Koichiro Chikaishi, Directors of the Board and independent director, Mr Guo Konghui, Mr Gao Zhikai were absent; director, Mr. Zhang Xinyu entrusted director, Mr. Li Shouwu and independent director, Mr. Guo Konghui entrusted independent director, Mr. Xia Donglin, Mr. Gao Zhikai entrusted independent director, Mr. Wen Zhongyu to attend and vote on their behalf, respectively.

Chairman Mr. Yin Jiaxu, General Manager Mr. Zhao Luchuan and Chief Accountant Mr. Cui Yunjiang guarantee the truthfulness and completeness of the financial statements of the annual report.

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

Content

I.	Important note and contents	1
II.	General Introduction of the Company	3
III.	Extracts of Accounting and Operating Data	4
IV.	Changes in Shareholdings and Information on Shareholders	5
V.	Information on Directors, Supervisors, Senior Management and Employees	8
VI.	Corporate Governance Structure	10
VII.	Shareholders General Meeting	11
VIII.	Report by Board of Directors	13

IX.	Report by Board of Supervisors	15
X.	Important Issues	21
XI.	Financial Reports	25
XII.	Documents for Inspection	61

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 Matters Representative: Ms. Li Jun

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

Telephone: (023) 67591349, 67591568

Fax: (023) 67866055, 67870261

Email address: cazjc@mail.changan.com.cn

4. Registered address: No. 260, Jian Xin East Road, Jiang Bei District, Chongqing

Post code: 400023

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

Post code: 400023

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

Email Address of the Company: cazqc@mail.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 preparation: 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

Date of change in registration: December 16, 2002

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

Business license number: *Yu Zhi* 500000218005570

Taxation registration number: State Taxation *Chong Zi* 51021120286320X, Di Sui Zi 500112736570882

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 ten thousand):

Profit before tax	1,124,537
Net profit	865,146
Profit from operation	2,533,719
Other operation income	41,447
Operating profit	1,119,412
Investment income	(48,247)
Net non-operating income/loss	-
Net cash in-flow from operating activities	2,086,356
Net increase in cash and cash equivalents	1,069,507

2. Reconciliation of the net profits presented under the PRC accounting standards and International Financial Reporting Standards ("IFRS") (RMB thousand)

	Net Assets	Net Profit
As reported mode PRC accounting standards:	3,301,363	834,997
1. Staff bonus and welfare fund of Changan Suzuki appropriated from profit after tax	-	(18,000)
2. Amortization of goodwill arising on consolidation	(17,171)	858



3. Adjustment for amortization of pre-operating expenses of Changan Suzuki	1,229	-
4. Reversal of revaluation surpluses from of long-term assets relating to revaluation made in 1995	(7,877)	-
5. Deferred tax assets	97,212	28,102
6. Reversal of equity share of the loss of Changan Ford Automobile Co., Ltd. in 2001	-	11,000
7. Reversal of capital surplus to other operating income	-	8,189
8. Declared dividends in 2002	98,133	-
As restated in conformity with IFRS:	3,472,889	865,146

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

Item	2002	2001	2000
Sales (RMB '000)	9,884,068	7,331,806	6,703,212
Net profit (RMB '000)	865,146	206,183	134,512
Total assets (RMB '000)	8,775,246	6,669,305	7,066,654
Shareholders' equity (RMB '000)	3,472,889	2,656,809	2,497,239
Earnings per share (yuan/share)	0.71	0.17	0.11
Net assets per share (yuan/share)	2.83	2.17	2.04
Adjusted net assets per share(yuan/shard)	2.79	2.15	1.85
Net cash flow from operating activities per share(yuan/share)	1.70	0.80	0.72
Return on net assets (%)	24.91	7.76	5.49

IV. Changes in Shareholdings and Information on Shareholders

1. Change in shareholdings

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

	Balance before current change	Increase/decrease in the reporting period (+, -)						Closing balance after change
		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	21,000							21,000
4. Preference shares and others								
Sub-total of non-circulated shares	708,687,000							708,687,000
II. Circulated shares								
1. Domestic listed RMB shares	167,979,000							167,979,000
2. Domestic listed foreign shares	350,000,000							350,000,000
3. Overseas listed foreign shares								
4. Others								
Total circulated shares	517,979,000							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.

2. Information on the shareholders

- (1) At the end of the reporting period, the shareholders of the Company totaled 75,941, of which 42,050 were A share shareholders and 33,891 were B share shareholders.



(2) The largest ten shareholders:

Name of the shareholder	Increase/ decrease in the year	Shares held at the year-end	% of total shares	Share Type	Pledged/ Frozen shares	Shareholders
1. Changan Automobile Group Limited ("CAC")	0	708,666,000	57.77	non-circulated	354,333,000	State-owned
2. Bony A/C CMG CH China Investment Ltd	13,299,880	13,299,880	0.011	circulated		Public-owned
3. Newton Oriental Fund	10,127,000	10,127,000	0.008	circulated		Foreign
4. BBHBOSTONA/C Gom Emerging markets Fund	9,101,940	9,101,940	0.007	circulated		Foreign
5. Beihai Yinhe High Technology Industrial Co. Ltd.	6,356,415	6,356,415	0.005	circulated		Public-owned
6. East Asia Securities Company Ltd.	3,980,000	3,980,000	0.003	circulated		Foreign
7. China Intlmaring Containers (Hong Kong) Ltd.	3,492,000	3,492,000	0.003	circulated		Foreign
8. Shanghai Hong Kong Wanguo Securities Co. Ltd.	2,110,700	2,649,700	0.002	circulated		Foreign
9. Liyu Investment Co. Ltd.	2,606,300	2,606,300	0.002	circulated		Foreign
10. Wan Mingfang	2,236,500	2,236,500	0.002	circulated		Public-owned

(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

(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



V. Information on Directors, Supervisors, Senior Management and Employees

1. Information on directors, supervisors and senior management

Name	Position	Sex	Age	Term of office	Shares held		Reasons for changes
					At the beginning of the year	By the year-end	
Yin Jiaxu	Chairman	M	46	2000.05-2003.05	4200	4200	
Zhao Luchuan	Deputy Chairman, General Manager	M	49	2000.05-2003.05	4200	4200	
Keijin Yamauchi	Deputy Chairman	M	59	2000.05-2003.05	0	0	
Li Shouwu	Director	M	36	2000.05-2003.05	0	0	
Zhang Xinyu	Director	M	54	2000.05-2003.05	0	0	
Chen Qing	Director	M	40	2000.05-2003.05	0	0	
Wang Chongsheng	Director	M	44	2000.05-2003.05	4200	4200	
Guo Xuewu	Director	M	46	2000.05-2003.05	0	0	
Zhang Baolin	Director	M	40	2001.05-2003.05	0	0	
Toshiaki Hashimoto	Director	M	54	2000.05-2003.05	0	0	
Koichiro Chikaishi	Director	M	54	2000.05-2003.05	0	0	
Guo Konghui	Independent Director	M	67	2002.04-2003.05	0	0	
Xia Donglin	Independent Director	M	41	2002.04-2003.05	0	0	
Gao Zhikai	Independent Director	M	40	2002.04-2003.05	0	0	
Wen Zongyu	Independent Director	M	39	2002.04-2003.05	0	0	
Shi Yubao	Organizer of the Board of Supervisors	M	49	2001.05-2003.05	0	0	
Zhou Xiaying	Supervisor	F	53	2000.05-2003.05	4200	4200	
Peng Minggeng	Supervisor	M	52	2001.05-2003.05	4200	4200	
Cao Dongping	Supervisor	F	49	2001.05-2003.05	0	0	
Xiong Huilin	Supervisor	F	43	2000.05-2003.05	0	0	
Zhu Zhiping	Supervisor	M	40	2001.11-2003.05	0	0	
Hua Dubiao	Supervisor	M	37	2001.11-2003.05	0	0	
Fu Xiangyu	Supervisor	F	47	2001.11-2003.05	0	0	

Zhu Huarong	Deputy General Manager	M	37	2000.4-2003.04	0	0	
Jia Tingyue	Deputy General Manager	M	39	2001.4-2003.04	0	0	
Cui Xiaomei	Deputy General Manager	F	47	2001.4-2003.04	0	0	
Cui Yunjiang	Deputy General Manager, Board Secretary	M	39	2000.4-2003.04	0	0	
Ma Jun	Board Secretary	M	43	2000.4-2003.04	0	0	

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

Name	Shareholder company	Position	Term of office
Yin Jiaxu	Changan Automobile Group Limited	Executive Director, President, Deputy Secretary of the Party Committee	1998.7-
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-
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 year

In 2002, 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 of directors, supervisors and senior management was

RMB 358,233. The total remuneration for the three highest paid directors (only one director receives remuneration from the Company) was at RMB 60,629, and total remuneration for the three most highest paid senior managers was RMB 135,301.

Of the directors, supervisors and senior managers who receive payment from the Company, four received payment between RMB 25,000 and 35,000, three received payment between 35,000 and 45,000, two received payment 55,000 and 65,000.

Remuneration for independent directors was RMB 50,000 (inclusive tax) per person per year. Expenses incurred in the discharge of responsibilities in attending board of directors meetings and shareholders' meetings and in connection with the Company's Article of Association are reimbursed by the Company.

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

3. Based on approval of 2001 shareholders' meeting, the Company engaged Mr. Guo Konghui, Mr. Xia Donglin, Mr. Gao Zhikai and Mr. Wen Zongyu as Independent Directors.
4. The Employees of the Company
By the end of the year, total headcount of the Company was at 7,077, including 4,095 production workers, 1,023 salespersons, 748 technicians, 566 finance staff, and 645 administrative staff. Of the total, there were 2 with doctorate degree, 35 with master degree, 843 with bachelor degree, and 1,337 with college education or above.

The number of retired employees for which the Company is required to bear their expenses was 1,958.

VI. Corporate Governance Structure

1. Corporate governance

The Company has been strictly complying with the relevant laws and regulations, including the Company Law, the Securities Law, the Listing Regulation of Shenzhen Stock Exchange 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

2. The independent directors

The independent directors of the Board have been honest, diligent and industrious in fulfilling their duties and expressed independent opinions on investment, related party transactions, assets acquisition and other significant transactions, thus contributing to the improvement of the decision capabilities of management and the safeguard of the Company's interest, especially the minority shareholders' interests. The independent directors also made contributions in areas of innovation, remuneration-system, corporate governance and financial management.

3. The 5 areas of segregation

(1) Operation: The main business scope of the Company includes the development, manufacture and sale of automobiles, engines and automobile related parts. The main business has been approved by government and is not dependent on other entities. The Company has the technology, production and sales employees related to its business scope and can undertake the operations independently.

(2) Assets: The Company has necessary fixed assets, current assets, intangible assets and related departments to meet its operation needs.

(3) Employee: The Company signed the labor contracts with their employees based on the registered employee list; they have responsibilities for the employees' performance, salary, pension, housing fund and other welfare of the employees independently.

The directors, supervisors and senior managers are appointed by Changan Automobile Group Limited, the selection and engagement of whom are in conformity with Corporate Laws and Article of Association. The senior managers work for the Company full time and received salary from the Company.

(4) Organization: Each entity of the Group is independent of the controlling shareholders and carry out their rights in accordance with the relevant regulations.

(5) Finance: The Company has independent financial department and established independent accounting system and financial management system.

VII. Shareholders General Meeting

During the reporting period, three shareholders general meetings were held.

I. The Board of Directors announced the 2001 shareholders general meeting on March 10, 2002 through China Securities, Securities Daily and Hong Kong Business. The meeting was held on April 29, 2002 at Chongqing Changan Hotel. The meeting debated and passed through voting the following resolutions:

1. Report of Board of directors
2. Report of Board of Supervisors
3. 2001 Annual Report and Extract
4. Use of funds raised from the previous share issuance
5. Reappointment of the auditor for the Company
6. The profit allocation scheme for 2001
7. Report on writing off bad debts
8. Revision of the Comprehensive Service Agreement and Building and Land Rental Agreement
9. Application for Building Rental Agreement
10. Reappointment of independent directors
11. Revision of the Articles of Association
12. Acquisition of sales subsidiaries from CAC
13. Acquisition of partial equity of Nanjing Changan Automobile Co., Ltd.
14. Investment in Hebei Changan Automobile Co., Ltd.

The above resolutions were announced on April 30, 2002 through China Securities, Securities Daily and Hong Kong Business.

- II. The Board of Directors gave notification of the first extraordinary shareholders general meeting of 2002 on September 13, 2002 through China Securities, Securities Daily and Hong Kong Business. The meeting was held on October 13, 2002 at Chongqing Changan Hotel. The meeting debated and passed through voting the following resolutions:
 1. Acquisition of 55 sales subsidiaries from CAC
 2. Change of the Company's registered address
 3. Revision of Articles of Association

The above resolutions were announced on October 14, 2002 through China Securities, Securities Daily and Hong Kong Business.

- III. The Board of Directors gave notification of the second extraordinary shareholders general meeting of 2002 on December 17, 2002 through China Securities, Securities Daily and Hong Kong Business. The meeting was held on January 20, 2003 at Chongqing Changan Hotel. The meeting debated and passed through voting the engagement of Chongqing Changan Minsheng Logistics Co., Ltd to handle the vehicle distribution.

The above resolutions were announced on January 21, 2003 through China Securities, Securities Daily and Hong Kong Business.

VIII. Report by Board of Directors

I. Operation discussion and analysis

In 2002, the rapid growth of the domestic economy, the increasing income of the citizens and the favorable changes in automobile market provided growth opportunities for the automobile industry. The Company seized the opportunity by implementing the “Changan New Star” sales strategy to enhance sales and adjust the product mix. This contributed to the significant increase in profit by 319.60% thus accelerating the development of the Company. The main reasons are as follows:

1. Sales volume and Sales revenue increased proportionally; sales volume increased by 35.13% and sales revenue increased by 34.81%.
2. Sales of high gross margin products increased. The increase in sales of high margin SC6350 were 114,601, an increase of 162.76%.
3. Sales mix changed. In 2002, the sales volume of SC6350 which accounted for 42.58% of total sales, increased by 94.43%.
4. Cost decreased. Due to the implementation of cost project, SC6350 toolings have been fully amortized and components price decreased, thus resulting in significant decrease in the production cost.
5. Financial expense decreased by 402.96%.

II. 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 2002, the Company produced 301,852 automobiles and sold 269,136 automobiles, which accounted for 8.29% of whole the domestic automobile market, ranking no.4 and the first of the mini cars market.

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

Name	Production	Sales
Automobile manufacturers (106 in total)	3,251,225	3,248,058
Shanghai Automobile Industry Company	591,704	610,157
First Automobile Work Group	561,787	565,493
Dongfeng Automobile Group	418,481	415,714
Changan Automobile Group Limited	328,910	307,578
Beijing Automobile Industrial Group Limited	180,485	180,531
Harbin Hafei Automobile Company	173,030	175,055
Changhe Aviation Industrial Company	154,941	150,198
Tianjin Automobile Industrial Group Company Limited	94,397	101,799
Jinbei Automobile Company Limited	85,518	84,483
Nanjing Automobile Industrial Group Company Limited	83,937	83,538

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 produced 301,582 automobiles and sold 269,136 automobiles.

(1) Turnover of the Company by products for the year ended 31 December 2002

Product types	Turnover (RMB ten thousands)	%
Mini-lorry	61,773	6.25%
Mini-van	596,228	60.32%
Changan Lingyang	109,968	11.13%
Alto sedan	184,813	18.69%
Others	35,625	3.61%
Total	988,407	100%

(2) Sales volume of the Company by product for the year ended December 31, 2002

Type		Product volume(units)	Sales volume
Mini-lorry	Company	28,363	25,059
	Nanjing Changan	4,333	4,891
	Hebei Changan	2,997	2,216
Mini-van	Company	172,473	152,461
	Nanjing Changan	25,841	19,491
Changan Lingyang	Changan Suzuki	50,147	48,823
Alto sedan	Changan Suzuki	17,698	16,195
Total		301,852	269,136

The figures of Nanjing Changan Automobile Co., Ltd. were calculated beginning from the shares acquisition date.

(3) Main products which accounted for 10% of 2002 total sales revenue or profit

Type	Sales revenue(RMB ten thousand)	Sales cost(RMB ten thousand)	Gross margin(%)
SC6350	464,343	304,896	34.34
Changan Lingyang	109,968	85,282	22.45
Alto sedan	184,813	153,683	16.84

2. Operations and performance of the subsidiaries of the Company

Name	Registered capital	Shares held	Major business lines	Total assets (RMB ten thousand)	Net profit (RMB ten thousand)
Chongqing Changan Suzuki Automobile Co., Ltd.	US\$ 70 million	51%	Production and sales of Alto series and the parts	183,974	19,244
Chongqing Changan Automobile Import and Export Company	RMB 10 million	95%	Export, wholesale and retail of automobiles and parts	16,050	572

Chongqing Changan Automobile Sales Company	RMB 48.5 million	100%	Sales of automobiles, engines and parts	5,540	50
Nanjing Changan Automobile Co., Ltd.	RMB275.73 million	36.55%	Manufacture and sale of mini auto-mobiles, engines and spare parts	77,997	779
Hebei Changan Automobile Co., Ltd.	RMB 88.98 million	40.11%	Manufacture and sale of auto mobiles, engines and spare parts	11,265	-657
Chongqing Anfu Automobile Co., Ltd.	RMB 32 million	50%	Sales of automobiles, engines and spare parts	3,201	0
154 Sales Subsidiaries	RMB 78.09 million	100%	Sales of automobiles and spare parts	54,940	-2,259

3. Major suppliers and clients

In 2002, gross purchase by the Company from the top five suppliers accounted for 32.76% of total purchase of the year; gross sales turnover to the top five clients accounted for 12.81% of the total turnover of the Company.

4. Difficulties encountered during operation and solutions

(1) Difficulties encountered during operation

- ① Following the pressure from accession to WTO and decrease in custom duties, the automobile price decreased which led to price cutting of domestic automobile. The increase in quota of imported automobile and the greater market share they captured have a significant impact on domestic automobile manufacturers.
- ② With acceleration in merger and acquisitions, the three largest domestic automobile groups gradually emerged.
- ③ Multi-requirements increase resulted in change in consumers. The customers' requirements have changed from single to multi-function, comfort and individuality which lead to market segregation, varying customer requirements and specified design and production becomes the development trend of automobile manufacturers.
- ④ Mixed competition of domestic automobile manufacture has arrived. The entrance of foreign automobile giants challenged the existence and development of domestic automobile manufacturers.
- ⑤ The pace of new product development quickens and the market competition extend to price and quality. Based on forecast, there would be approximately 30 new types of automobile in 2003, which would result in intense competition in price and quality.
- ⑥ Brand service is upgrading, the service trade will be the key to victory. The arrival of imported cars brought advanced service concepts and service rules which focus on the brand. These changes bring

new challenges in service quality, service technology and service management of domestic automobile industry; on the other hand, the high rate of return of service trade also accelerated the competition in service.

- ⑦ The regulations become more strict and the standards for safety and environment safeguard were enhanced, especially with the issuance of draft exposure of Automobile recall management rules which will bring challenges to automobile manufacturers.

(2) Solutions

- ① The Company implemented management innovation philosophy, strengthened basic management and emphasized the “3SC Management” and “MLDQ Management”, implemented overall innovation work and encouragement of reasonable suggestions brought notable effects. To strengthen investment management, the Company implemented “Quota Design, Quota Construction and Limited-period completion”, the Three Limitations rule; strengthened the bidding and management system and sales system management; strengthened assessing work, successfully implemented the changes to responsibility system relating to economic effects.
- ② The Company set up technology innovation philosophy, strengthened the research of production strategy and implemented the projects of automobile and engines development and production adjustment. They reinforced the technical cooperation with foreign companies in automobile and engine design and set up new product testing facility and CAE, perfected the product development support system and set up human resource training and incentive programmes. The Company also fulfilled the project management and archive management, enhanced technology innovation, set up cooperative management measures regarding production and research, and introduced the incentive programmes for technical achievement, standardize the procedure for research management, accelerated transfer of the research to production. The Company also enhanced the Knowledge rights management, established intellectual rights and strengthened the application of patent.
- ③ The Company set up innovative marketing philosophy, emphasizing marketing conception innovation, the operating programmes focus on the marketing of which the entire employee would support the marketing. The Company emphasized the retail manners innovation, pushing sales channel reform, establishing 5 head offices at province level and withdrawing certain sales subsidiaries. They actively carried out Contracts Sales, established distribution channels of Changan automobiles; according to the Company brand strategy, the production marketing channel which was consistent with the product development. The Company emphasized innovation, completed the structure reform of head offices of sales companies and redesigned 30 management flow, fulfilling evaluation of performance related remuneration and competition for positions of manager; and strengthened the marketing financial management and inspection, emphasize service innovation, established strengthened after-sales service departments. Based on the “800” service platform, the Company carried out a series of service promotion to improve the product brand and promote the marketing expansion. They combined the marketing service net, established the three-level service net platform which treated “4S” companies in provincial capital as representative standard companies

and other repair workshops as complement entities. Further, the Company will sign an agreement with China Everbright Bank to establish the Changan automobile financial service network.

5. Explanation of variance to the plans of the Company

Due to the optimistic position of domestic automobile market in 2002, the sales of the Company increased 35.13%. Due to the consolidation of Nanjing Changan, Hebei Changan and 146 sales subsidiaries, the sales revenue of the Company reached RMB 9.9 billion, 23.75% more than budget.

III. The investments of the Company in the reporting year

(1) Analysis of the investments of the Company

During the reporting period, the Company acquired 146 sales subsidiaries from CAC, and invested in Nanjing Changan Automobile Co., Ltd., Hebei Changan Automobile Co., Ltd. and Chongqing Anfu Automobile Co., Ltd. The details are shown in section on principal subsidiaries operation and results.

(2) The use of proceeds from funds raised (RMB ten thousand)

No.	Investment project committed	Actual investment	Investment	Project stage	Earnings
1.	Automobile production line	Automobile production line upgrade	5,809	In progress	Included in the overall earnings of the Company
2.	Engine production line	Engine production line upgrade	6,401	In progress	
3.	Technology Development Center construction	Construction of the Technology Development Center	1,426	In progress	
4.	Additions to working capital and repayment of loans	Additions to working capital and repayment of loans	0		
	Total		13,636		

By December 31, 2002, share issue proceeds not utilized stood at RMB 7,746, which has been placed in banks as current or time deposits. The use of these proceeds shall be in line with the shares issuance report and its development needs.

(3) The use of funds not derived from share issue (RMB ten thousand)

No.	Investment project	Funds injected	Project stage	Earnings
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1.	Automobile production line	1,773	In progress	Included in the overall earnings of the Company
2.	Engine production line	16,855	In progress	
3	Technology Development Center construction	0	In progress	
4	ERP project	1,143	In progress	
5	Industry Area	5,328	In progress	
	Total	25,099		

IV. Analysis of financial status and operation results of the Company

At December 31, 2002, the total assets, long-term liabilities and shareholders' equity of the Company in comparison to the previous year are as follows:

Item	2001	2000	Variance from the previous year	Change reasons
Total assets	8,775,246	6,669,305	31.58%	Production and sales expansion
Shareholder equity	3,472,889	2,656,809	30.72%	Profit increase
Profits from major business lines	2,533,719	1,432,342	76.89%	Refer to operation analysis
Net profits	865,146	206,183	319.60%	Refer to operation analysis
Net increase in cash and cash equivalent	1,069,507	303,153	252.79%	Sales increase and receivables collection

V. The impact of significant changes in the productive and operating environment and macro policies and laws and regulations on the Company.

For the detailed information, please refer to this section on difficulties encountered during operation and solutions

VI. The work of the Board of Directors

(1) The meetings of the Board and the resolutions in the year

In the reporting period, nine board meetings had been held:

① The Seventh Meeting of the Second Board of Directors was held on March 8, 2002 at the multimedia conference room of the Company. The following resolutions were debated and passed :

i. Report by the Board of Directors

- ii. Report by the General Manager
 - iii. 2001 annual report and extract
 - iv. Final financial settlements of 2001 and financial budgets of 2002.
 - v. Use of proceeds from the issuance of shares in 2001.
 - vi. Reappointment of the auditor for the Company.
 - vii. Preliminary profit distribution plan for 2001 and the profit distribution policy for 2002.
 - viii. Note on writing off bad debts
 - ix. Selection of candidates of Independent Directors.
 - x. Revision of the Articles of Association
 - xi. Investment in Changan Ford Automobile Co., Ltd.
 - xii. Guarantee on behalf of Changan Ford Automobile Co., Ltd.
 - xiii. On the notification of holding the year 2000 annual shareholders general meeting.
- ② The Eighth Meeting of the Second Board of Directors was held on April 1, 2002. The following resolutions were debated and passed:
- i. Revision of Comprehensive Service Agreement, Building Rental Agreement and Land use Agreement
 - ii. Signing Building Rental Agreement
 - iii. Acquisition of Sales subsidiaries from CAC
 - iv. Acquisition of partial equity of Nanjing Changan Automobile Co., Ltd
 - v. Investment in Hebei Changan Automobile Co., Ltd.
- ③ The Ninth Meeting of the Second Board of Directors was held on April 25, 2002 . The meeting debated and passed the resolution on 2002 First Quarter report
- ④ The Tenth Meeting of the Second Board of Directors was held on June 13, 2002 . The meeting debated and passed following resolution:
- i. Acquisition of 78 sales subsidiaries from CAC
 - ii. Investment in Nanjing Changan Automobile Co., Ltd.
- ⑤ The Eleventh Meeting of the Second Board of Directors was held on June 26, 2002 . The meeting debated and passed the resolution on establishing Modern Corporate Reporting System
- ⑥ The Twelfth Meeting of the Second Board of Directors was held on August 10, 2002 in multimedia conference room of the Company . The meeting debated and passed the following resolution:
2002 Half year Report and extract
Investment of RMB 50 million for purchase of 1000 mu of land.
- ⑦ The Thirteenth Meeting of the Second Board of Directors was held on September 12, 2002. The meeting debated and passed following resolution:
- i. Acquisition of 55 sales subsidiaries from CAC

- ii. Change of Registered Address
 - iii. Revision of Articles of Association
 - iv. Notice for the First Extraordinary Meeting of shareholders
- ⑧ The Fourteenth Meeting of the Second Board of Directors was held on October 29, 2002. The meeting debated and passed the resolution on 2002 the Third Quarter Report
- ⑨ The Fifteenth Meeting of the Second Board of Directors was held on December 16, 2002. The meeting debated and passed the following resolutions:
- i. Engagement of Chongqing Changan Minsheng Logistics Co., Ltd to handle the vehicles distribution.
 - ii. Notice for the second extraordinary meeting of shareholders
- (2) The execution of the resolutions of the shareholders general meetings by the Board

During the reporting period, the Board strictly carried out the resolutions of the shareholders, general meetings. Based on the profit distribution scheme approved on April 29, 2002 in the shareholders general meeting, the board announced and carried out dividend distribution and payment plan through China Securities, Securities Daily and Hong Kong Business on June 13, 2002.

VII. The draft scheme for the profit distribution of 2002

Net profit of 2002 was at RMB 834,997,465 (RMB 865,146,000 under International Financial Reporting Standards). RMB 96,565,624 was to be appropriated to the statutory reserve, RMB 96,547,559 to be appropriated to the statutory common reserve, RMB 18,000,000 to be appropriated to the staff and workers' bonus and welfare fund of Changan Suzuki, RMB 67,830,000 to be appropriated to the reserve fund, and RMB 18,870,000 to be appropriated to 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 Financial Reporting Standards respectively, or RMB 649,452,712 (including beginning undistributed profit of RMB 112,268,430). A dividend of RMB 0.80 (including tax) for every 10 shares shall be distributed to all shareholders amounting to RMB 98,133,280. The remaining RMB 551,319,432 shall be carried forward to the next fiscal year.

This profit distribution plan will be discussed in the 2002 Shareholders General Meeting.

IX. Report by Board of Supervisors

- 1. In the reporting period, two meetings of the Board of Supervisors were been held.
- (1) The Sixth meeting of the Second Board of Supervisors was held on March 8, 2002 at the multimedia conference room of the Company. The meeting debated and passed the 2002 report by the Board of

Supervisors.

- (2) The Seventh meeting of the Second Board of Supervisors was held on August 10, 2002 at the multimedia conference room of the Company. The meeting debated and passed the 2002 half-year report by the Board of Supervisors and its extract.
2. The supervisors attended all the meetings of the Board of Directors, 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 were in compliance with the Company Law and the Articles of Association, a proper internal control system had been established, and there had been no violations of 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 its review, the Board of Supervisors, 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 operating 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 its review of the Board of Supervisors, 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
Through its review, the Board of Supervisors, was view that the acquisition prices of sales subsidiaries from CAC and shares of Nanjing Changan Automobile Co., Ltd. were reasonable, and there was no under-table transaction , acts harmful to the interests of the shareholders or loss of the Company assets.
 - ⑤ Supervision of the related party transactions
Through its review, the Board of Supervisors, was of the view that all related party transactions had been conducted fairly with pricing based on the market prices which are fair and there had been no harm done to the interests of the Company.

X. Important Matters

1. Major litigations and arbitrations of the year



- ① In May 2002, the company's subsidiary Chongqing Changan Automobile Sales Co., Ltd. sued Changan Automobile Trade Co., Ltd. at Shaoyang Intermediate People's Court in Hunan province for disputes over RMB 1,556,080. Conciliation was reached in July 2002 where RMB 20,000 will be repaid from October.
- ② In July 2002, the Company's subsidiary Changan Automobile Sales Co., Ltd. sued Beifang Pudong Economic and Technology Development Co., Ltd. for disputes over RMB 9,430,000. The Company has received RMB 560,000 value of assets and RMB 910,000 in cash, and the verdict is that the remaining RMB 7,960,000 shall be paid by the defendant.
- ③ In September 2002, the Company sued Chengdu Materials Company Limited for sale receivables disputes over RMB 11,365,085.79. The verdict is that repayment of RMB 10,395,640.79 shall be made by the defendant.
2. There was no acquisition and disposal of asset, and merger and acquisition during the year.
- (1) Acquisition

Transferring Company	Acquired Assets	Acquired price (RMB ten thousand)	The net profit contributed to the Company from acquisition date to the year end (RMB ten thousand)	Effects on the financial status and operating results
Changan Group	Shares of Nanjing Changan	5,232	178	The Board of Directors was of the view that the acquisition was related party transaction, which had been conducted fairly with pricing based on the evaluation price, enhancing the marketing system and competition capabilities. There had been no unfavorable effects to the financial status and operating results.
Changan Group	13 Sales Subsidiaries	404	-41	
Changan Group	78 Sales Subsidiaries	2,325	377	
Changan Group	55 Sales Subsidiaries	0	1,066	

- (2) There was no sale of assets and merger and acquisitions

3. Significant related party transactions

For details please refer to the disclosure regarding related parties and related party transactions in the notes to the financial statements.



4. Major contracts and their fulfillment

- (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. The lease of the assets of other companies by the Company and lease of the assets of the Company was shown as follows:

According to the production needs, the Company rented the office building of Changan Sales Company, the total area is 4,560 square metres, the monthly rental is RMB 40 per sq. m., the remaining building is 34,355 square metres and monthly rental is RMB 35 per sq. m. The Company rented land of CAC of 282,352 square metres, monthly rental is RMB 10 per sq. m. The Changan Group rented the offices of 5th, 8th, 9th and 10th floors of the Science and Technology Building of the Company due to office needs, the area is 9,056 square metres and monthly rental is RMB 40 per sq. m.

- (2) Major guarantees: the company provided joint loan guarantee for Chongqing Changan Ford Co., Ltd. for RMB 31,200,000. The guarantee was joint liabilities guarantee with a term is from March 27, 2002 to March 30, 2004.
- (3) 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, 2001 to September 8, 2002. The company had claimed back RMB 5,052,827 in advance on June 28, 2002.

5. Commitments

During the reporting period, there were no commitments of the Company or shareholders who held more than 5% of total shares.

6. During the reporting period, there were no changes of CPA firm. Auditor's remuneration are shown below:

Year	Auditor	Audit fees	Other fees	Note
2002	PricewaterhouseCoopers Zhongtian CPA	RMB 1,885,000	RMB3,376,620	The Company provided accommodation, but did not bear traveling expenses

The other fees paid to were audit fee for the acquisition, which did not affect the independent opinions the CPAs. PricewaterhouseCoopers Zhongtian CPA has provided the audit service to the Company for two years.

7. During the reporting period, the Company, its directors, supervisors and senior managers did not received any audit and investigation, disciplinary punishment, public criticism nor public censure from China Securities Regulatory Commission from the stock exchange.
8. In September, 2001, the Ministry of Finance inspected the implementation of Accounting Laws from

1999 to 2000. In September, 2002, the Company was notified of Administrative punishment decision from the Ministry of Finance. The Company was required to correct the acts which are not in compliance with the Accounting Laws and Accounting Regulations in limited period; at the same time, a penalty of RMB10,000 was imported. On September 20, 2002, the Company published this matter on China Securities, Securities Daily and Hong Kong Business; the matter has been resolved.

9. Other important issues: on June 17, 2002, the Company signed an agreement for establishing the financial service network of automobile with China Everbright Bank. This was published on China Securities, Securities Daily and Hong Kong Business.
10. In 2003, the company's operation experiences an upward surge and the forecast operation result of the first three months will increase by 50% in comparison with the same period of 2002.

XI. Financial Reports

I. Audit report

Pwc ZT Shen Zi (2003) No. 1246

Report of the auditors

To the shareholders 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 2002 and the related consolidated income and cash flow statements for the year then ended. These consolidated financial statements 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 consolidated financial position of the Group as of 31 December 2002 and of the consolidated results of its operations and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

PricewaterhouseCoopers Zhong Tian CPAs Co., Ltd.

4 April 2003



II. Financial statements

Chongqing Changan Automobile Co., Ltd.**Consolidated income statement****For the year ended 31 December 2002**

(all amounts in RMB thousands)	Notes	Year ended 31 December	
		2002	2001
Sales	1	9,884,068	7,331,806
Sales tax and surcharge		(350,967)	(233,388)
Net sales		9,533,101	7,098,418
Cost of sales		(6,999,382)	(5,666,076)
Gross profit		2,533,719	1,432,342
Distribution costs		(750,820)	(793,989)
Administrative expenses		(704,934)	(452,785)
Other operating income and expenses		41,447	103,849
Profit from operations	2	1,119,412	289,417
Finance costs – net	3	53,372	(17,617)
Group profit before tax		1,172,784	271,800
Share of result of associates before tax	12	(48,247)	(11,000)
Profit before tax		1,124,537	260,800
Tax	5	(176,435)	28,157
Group profit before minority interest		948,102	288,957
Minority interest	27	(82,956)	(82,774)
Net profit		865,146	206,183
Basic earnings per share (RMB per share)	6	0.71	0.17

Chongqing Changan Automobile Co., Ltd.**Consolidated balance sheet****As of 31 December 2002**

(all amounts in RMB thousands)	Notes	31 December	31 December
		2002	2001
ASSETS			
Non-current assets			
Property, plant and equipment	9	2,535,495	2,249,538
Land use rights	10	149,655	83,719
Intangible assets	11	47,553	19,449
Investments in associates	12	156,150	157,589
Available-for-sale investments	13	41,220	54,000
Other non-current assets	14	54,602	32,404
Deferred tax assets	15	97,212	69,110
		3,081,887	2,665,809
Current assets			
Inventories	16	1,715,461	709,521
Receivables and prepayments	17	1,103,997	1,484,131
Trading investments	18	-	5,450
Cash and cash equivalents	19	2,873,901	1,804,394
		5,693,359	4,003,496
Total assets		8,775,246	6,669,305
EQUITY AND LIABILITIES			
Shareholders' equity			
Share capital	26	1,226,666	1,226,666
Share premium	26	833,438	833,438
Reserves	28	627,955	348,142
Retained earnings		784,830	248,563
		3,472,889	2,656,809
Minority interest	27	829,079	522,797
Non-current liabilities			
Borrowings	21	150,000	180,000
Retirement benefit obligations	4, 22	27,000	27,000
		177,000	207,000
Current liabilities			
Trade and other payables	20	3,697,083	2,384,801
Current tax liabilities		286,131	355,172
Borrowings	21	216,500	521,750
Provisions	23	96,564	20,976
		4,296,278	3,282,699
Total liabilities		4,473,278	3,489,699
Total equity and liabilities		8,775,246	6,669,305

On 4 April 2003, Chongqing Changan Automobile Co., Ltd.'s Board of Directors authorised these consolidated financial statements for issue.



Chongqing Changan Automobile Co., Ltd.
Consolidated statement of changes in shareholders' equity
For the year ended 31 December 2002

(all amounts in RMB thousands)	Note	Share capital (Note 26)	Share premium (Note 26)	Other reserves (Note 28)	Retained earnings	Total
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 for the year		-	-	-	206,183	206,183
Transfer		-	-	100,520	(100,520)	0
Balance at 1 January 2002		1,226,666	833,438	348,142	248,563	2,656,809
Dividend relating to 2001	8	-	-	-	(49,066)	(49,066)
Net profit for the year		-	-	-	865,146	865,146
Transfer		-	-	279,813	(279,813)	0
Balance at 31 December 2002		1,226,666	833,438	627,955	784,830	3,472,889

Chongqing Changan Automobile Co., Ltd.
Consolidated cash flow statement
For the year ended 31 December 2002

		Year ended 31 December	
	Notes	2002	2001
(all amounts in RMB thousands)			
Cashflow from Operating Activities			
Cash received from sales of goods or rendering of services		13,574,101	9,434,039
Refund of tax		14,692	23,864
Other cash received relating to operating activities		166,497	506,840
Sub-total of cash inflow		13,755,290	9,964,743
Cash paid for goods and services		(9,162,031)	(7,228,979)
Cash paid to and on behalf of employees		(316,117)	(300,767)
Payments of all types of taxes		(1,102,880)	(783,918)
Other cash paid relating to operating activities		(1,087,906)	(674,899)
Sub-total of cash outflow		(11,668,934)	(8,988,563)
Net cashflow from operating activities	30	2,086,356	976,180
Cashflow from Investing Activities			
Net cash received from disposal of property, plant and equipment		20,635	785
Net cash received from disposal of land use rights		6,492	-
Cash received from return on investments		5,000	-
Cash received from investment income		0	12,511
Acquisition of subsidiaries, net of cash acquired	29	6,494	-
Sub-total of cash inflow		38,621	13,296
Cash paid to acquire property, plant and equipment and construction in progress		(602,146)	(218,206)
Cash paid for investment in associates		(46,806)	(168,096)
Sub-total of cash outflow		(648,952)	(386,302)
Net cashflow from investing activities		(610,331)	(373,006)
Cashflow from financing Activities			
Cash received from investments by others		26,674	-
Proceeds from borrowings		286,950	1,190,254
Cash received relating to other financing activities		0	206,577
Sub-total of cash inflow		313,624	1,396,831
Cash repayment of amounts borrowed		(645,250)	(1,575,004)
Cash payments for interest expenses		(25,826)	(84,901)
Cash payments for distribution of dividends or profits	8	(49,066)	(46,613)
Cash paid relating to other financing activities		-	(334)
Sub-total of cash outflow		(720,142)	(1,706,852)
Net cashflow from financing activities		(406,518)	(310,021)
Net Increase in cash and cash equivalents		1,069,507	293,153
Cash and cash equivalents at beginning of year		1,794,394	1,501,241
Cash and cash equivalents at end of year		2,863,901	1,794,394

III. Notes to the financial statements

General Information

Unless otherwise stated, the consolidated financial statements are presented in Renminbi (hereafter referred to “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 (hereafter referred to “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 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.

During the year, the Group (comprising the Company and its subsidiaries) acquired 146 companies and partial equity of Nanjing Changan Automobile Co., Ltd. from CAC. Details of the acquisition are mentioned in Note 29.

Accounting policies

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

A Basis of preparation

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (hereafter referred to as “IFRS”), which includes International Accounting Standards and Interpretations issued by the International Accounting Standards Board. The consolidated financial statements have been prepared under the historical cost convention except as disclosed in the accounting policies below.

The preparation of financial statements in conformity with generally accepted accounting principles requires the use of estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Although these estimates are based on management’s best knowledge of current event and actions, actual results ultimately may differ from those estimates.

B Group accounting**(1) Subsidiaries**

Subsidiaries, which are those entities in which the Company and its subsidiaries (hereafter referred to as “the Group”) has an interest of more than one half of the voting rights or otherwise has power to govern the financial and operating policies are consolidated.

The existence and effect of potential voting rights that are presently exercisable or presently convertible are considered when assessing whether the Group controls another entity. Subsidiaries are consolidated from the date on which control is transferred to the Group and are no longer consolidated from the date that control ceases. The purchase method accounting is used to account for the acquisition of subsidiaries. The cost of an acquisition is measured as the fair value of the assets given up, shares issued or liabilities undertaken at the date of acquisition plus costs directly attributable to the acquisition. The excess of the cost of acquisition over the fair value of the net assets of the subsidiary acquired is recorded as goodwill. See note G for the accounting policy on goodwill. Inter-company 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 of subsidiaries have been charged to ensure consistency with the policy adopted by the Group.

(2) Associates

Investments in associates are accounted for by the equity method of accounting. Under this method the company’s share of the post-acquisition profits or losses of associates is recognised in the income statement and its share of post-acquisition movements in reserves is recognised in reserves. The cumulative post-acquisition movements are adjusted against the cost of the investment. Associates are entities over which the Group generally 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 associates are eliminated to the extent of the Group’s interest in the associates; unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. When the Group’s share of losses in an associate equals or exceeds its interest in the associate, the Group does not recognise further losses, unless the Group has incurred obligations or made payments on behalf of the associates.

C**Foreign currency translation****(1) Measurement currency**

The consolidated financial statements are presented in RMB, which is the measurement currency of the Company.

(2) Transactions and balances

Foreign currency transactions are translated into the measurement currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange 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.

D Property, plant and equipment**(1) Owned assets**

Property, plant and equipment are stated at cost or, in the case of assets injected into the Group at the time of its reorganisation, at valuation less accumulated depreciation representing the deemed cost to the Group, less

accumulated depreciation and any impairment losses.

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, to their residual values over their estimated useful life as follows:

Buildings	20-40 years
Plant and machinery	10-20 years
Equipment and motor vehicles	5-8 years
Others	5-22 years

(4) Construction in progress

Construction of a building or plant is considered to be completed and transferred to property plant and equipment 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.

E Land use rights

Amortisation of the land use rights is calculated on a straight-line basis to write off the cost over the lease term ranging from 20 to 50 years.

F Investments

The Group classified its investments in debt and equity securities into the following categories: trading, held-to-maturity and available-for-sale. The classification is dependent on the purpose for which the investments were acquired. Management determines the classification of its investments at the time of the purchase and re-evaluates such designation on a regular basis. Investments that are acquired principally for the purpose of generating a profit from short-term fluctuation in price are classified as trading investments and included in current assets. Investments with a fixed maturity that management has the intent and ability to hold to maturity are classified as held-to-maturity and are included in non-current assets, except for maturities within 12 months from the balance sheet date which are classified as current assets. Investments intended to be held for an indefinite period of time, which may be sold in response to

needs for liquidity or changes in interest rates, are classified as available-for-sale; and are included in non-current assets unless management has the express intention of holding the investment for less than 12 months from the balance sheet date or unless they will need to be sold to raise operating capital, in which case they are included in current assets.

Purchase and sales of investments are recognised on the trade date, which is the date that the Group commits to purchase or sell the asset. Cost of purchase includes transaction costs. Trading, held-to-maturity and available-for-sale investments are carried at cost less impairment.

G Intangible assets

(1) Goodwill

Goodwill represents the excess of the cost of an acquisition over the fair value of the Group's share of the net assets of the acquired subsidiary/associate at the date of acquisition. Goodwill on acquisitions has been amortised using the straight-line method over its estimated useful life. Where it cannot be demonstrated that there is future economic benefits to be derived, the goodwill on acquisition will be written off upon acquisition.

(2) 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.

H Deferred assets

Deferred assets include utility capacity enhancement expenses that are amortized using the straight-line method over 10 years.

I Impairment of long lived assets

Property, plant and equipment and other non-current assets, including intangible assets are reviewed for impairment losses whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the carrying amount of the asset exceeds its recoverable amount which is the higher of an asset's net selling price and value in use.

J 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.

- (2) A group company is the lessor

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.

K 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.

L Trade receivables

Trade receivables are carried at original invoice amount less provision made for impairment of these receivables. A provision for impairment of trade receivables is established when there is an objective evidence that the Group will not be able to collect all amounts due according to the original terms of receivables. The amount of the provision is the difference between the carrying amount and the recoverable amount, being the present value of expected cash flows, discounted at the market rate of interest for similar borrowers.

M Cash and cash equivalents

Cash and cash equivalents are carried in the balance sheet at cost. For the purposes of the cash flow statement, cash and cash equivalents comprise cash on hand and deposits held at call with banks.

N Share capital

- (1) Share capital consists of A and B shares.
- (2) Incremental 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.

O Borrowings

Borrowings are recognized initially at the proceeds received, net of any transaction costs incurred. Borrowings are stated at amortized cost using the effective yield method; any difference between proceeds (net of transaction costs) and redemption value is subsequently recognized in the statement of income over the period of the borrowings.

P Deferred Income tax

Deferred income 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. Currently enacted tax rates are used in the determination of deferred income tax.

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

Q Employee benefits**(1) Pension obligations**

The Group participates in defined employees retirement schemes regarding pension benefit required under existing PRC legislation. The contributions to the schemes are charged to the income statement as and when incurred. The Group's obligations include contributions to a defined contribution retirement plan administered by a government agency determined at a certain percentage of the salaries of the employees and contributions to a supplementary pension fund of a fixed monthly amount per employee. The Group accounts for these contributions on the accrual basis.

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.

(2) Termination benefits

Termination benefits are payable whenever an employee's employment is terminated before the normal retirement date. The Group recognises termination benefits when it is demonstrably committed to either terminate the employment of current employees according to a detailed formal plan without possibility of withdrawal or to provide termination benefits as a result of an offer made to encourage voluntary redundancy. Benefits falling due more than 12 months after balance sheet date are discounted to present value.

R Provisions

Provisions, for mainly warranty cost, are recognised when the Group has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation, and a reliable estimate of the amount can be made. Where the Group expects a provision to be reimbursed, for example under an insurance contract, the reimbursement is recognised as a separate asset but only when the reimbursement is virtually certain.

S Revenue recognition

Revenue comprises the invoiced value for the sale of goods and services net of value-added tax, rebates and discounts, and after eliminating sales within the Group. Revenue from the sale of goods is recognised when significant risks and rewards of ownership of the goods are transferred to the buyer.

Rental income are recognised on an accrual basis. Interest income is recognised on a time proportion basis, taking account of the principal outstanding and the effective rate over the period to maturity, when it is determined that such income will accrue to the Group. Dividends are recognised when the right to receive payment is established.

T Dividends payable

Dividends are recorded in the Group's financial statements in the period in which they are approved by the Group's shareholders.

U Research and development

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

project will be a success considering its commercial and technological feasibility, and only if the cost can be measured reliably. Other development expenditures are recognised as an expense as incurred. Development costs previously recognised as an expense are not recognised as an asset in a subsequent period. Development costs that have been capitalised are amortised from the commencement of the commercial production of the product on a straight-line basis over the period of its expected benefit.

V**Segment Reporting**

The Group's turnover and profit for the year were mainly derived from the manufacture and domestic sale of automobiles and the principal assets employed by the Group are located in the PRC. Accordingly, no segmental analysis by business and geographical segments has been provided for the year

W**Comparatives**

Where necessary, comparative figures have been adjusted to conform with changes in presentation in the current year.

Financial risk management

The financial assets of the Group include cash and bank balances, cash and time deposits with a related financial institution, investments, accounts and bills receivable, prepayments and other receivables, and amounts due from related companies. The financial liabilities of the Group include bank loans, accounts and bills payable, receipts in advance, accruals and other payables, accrued staff welfare and benefits and amounts due to related companies.

(1) Interest rate risk

The Group's income and operating cash flows are substantially independent of changes in market rates. The interest rates and terms of the repayment of bank borrowings of the Group are disclosed in note 21 to the financial statements.

(2)**Credit risk****i. Cash at bank and in hand**

For prudent liquidity risk management, substantial amounts of the Group's cash balances are deposited with Industrial and Commercial Bank of China, Bank of Communications, Ordnance Finance Company, China Merchants Bank, Shanghai Pudong Development Bank, Huaxia Bank, Zhongxin Industrial Bank and Minsheng Bank Corporation.

Financial risk management (continued)**ii. Receivables**

The Group does not have a significant exposure to any individual customer or counterparty. Credit risk on receivables has already been accounted for in the financial statements as they are shown net of provisions for bad and doubtful debts.

(3)**Fair values**

The fair values of cash and bank balances, cash placed with a related financial institution, short term investments, receivables and prepayments, trade and other payables, current tax liabilities, provisions, are not materially different from their carrying amounts.



The carrying values of short term borrowings are estimated to approximate their fair values based on the nature or short term maturity of these instruments.

The fair values of long term borrowings as estimated by applying a discounted cash flow using current market interest rates for similar financial instruments approximate their carrying values.

Fair value estimates are made at a specific point in time and are based on relevant market information and information about the financial instrument. These estimates are subjective in nature and involve uncertainties and matters of significant judgement, and therefore, cannot be determined with precision. Changes in assumptions could significantly affect the estimates.

Notes to the consolidated financial statements**(In the notes all amounts are shown in RMB thousands unless otherwise stated)****1****Sales**

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

2**Profit from operations**

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

	2002	2001
Depreciation on property, plant and equipment (Note 9)	309,481	288,173
Amortisation of land use rights (Note 10)	4,088	2,748
Impairment of property, plant and equipment (Note 9)	-	10,064
Impairment of land use rights (Note 10)	6,700	-
Loss on disposal of property, plant and equipment	27,727	4,972
Loss on disposal of land use rights	20,479	-
Repairs and maintenance expenditure on property, plant and equipment	70,386	56,821
Amortisation of intangible assets (Note 11)	8,958	2,026
Amortisation of deferred assets (Note 14)	6,473	1,634
Research and development expenditure	340,463	123,579
Operating lease rentals – property	23,073	9,317
Inventory		
– provision for loss	70,255	27,585
– reversal of inventory provision	(51,285)	(28,537)
Trade receivables – impairment charge for bad and doubtful debts	25,779	92,031
Staff costs (Note 4)	363,111	302,076
Investment loss/(income)		
– Goodwill written off (Note 29)	19,143	-
– Provision for loss on investment (Note 13)	12,780	-
– Dividends received	-	(12,511)

3**Finance costs – net**

	2002	2001
Interest expense	(24,542)	(56,817)
Interest income	80,130	42,924
Net foreign exchange losses	(461)	(96)
Others	(1,755)	(3,628)
	<u>53,372</u>	<u>(17,617)</u>



4

Staff costs

	2002	2001
Wages and salaries	279,364	211,571
Social security costs	47,885	33,254
Pension costs – defined contribution plans	35,862	24,251
Other retirement benefits	-	33,000
	<u>363,111</u>	<u>302,076</u>

The average number of employees in 2002 was 11,419 (2001: 8,360), 1,161 of whom (2001: 434) were part-time.

The employees of the Group participate in a defined contribution pension plan organized by the relevant municipal and provincial governments under which the Group was required to make monthly contributions to this plan.

Obligation in respect of retirement benefits of RMB 28,956 not covered by the abovementioned retirement scheme is the present value of the unfunded obligations include non-current portion of RMB 27,000 (2001: RMB 27,000). The current portion of RMB 1,956 (2001: RMB 6,000) have been included under other payables.

5

Tax

	2002	2001
Current tax	(204,537)	(40,953)
Deferred tax (Note 15)	<u>28,102</u>	<u>69,110</u>
	<u>(176,435)</u>	<u>28,157</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:

	2002	2001
Profit before tax	<u>1,124,537</u>	<u>260,800</u>
Tax calculated at a tax rate of 15% (2001: 15%)	(168,681)	(39,120)
Income not subject to tax	<u>2,283</u>	<u>13,310</u>
Additional deduction of research and development expenditure	<u>19,884</u>	<u>22,730</u>
Expenses not deductible for tax purposes	<u>(44,390)</u>	<u>34,942</u>
Effect of different tax rates for associates and consolidated subsidiaries	<u>14,469</u>	<u>(3,705)</u>
Tax (charge)/credit	<u>(176,435)</u>	<u>28,157</u>

The income tax rate applicable to the Company, Chongqing Changan Import and Export Co., Ltd. and Chongqing Changan Automobile Sales Co., Ltd. is 15%. As approved by the local tax authorities, the Company and these subsidiaries file a consolidated income tax return.

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 third 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.

The income tax applicable to the other subsidiaries is 33%.



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.

	2002	2001
Net profit attributable to shareholders (RMB'000)	865,146	206,183
Weighted average number of ordinary shares in issue (thousands)	1,226,666	1,226,666
Basic earnings per share (RMB per share)	0.71	0.17

No diluted earnings per share is presented as there were no potential ordinary share outstanding during the year ended 31 December 2002 and 2001.

7

Prior year adjustment

Pursuant to a resolution of the Company's board of directors on 9 April 2001, dividend of RMB 38 cents (tax included) for every 10 shares was 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 10 May 2003, a dividend in respect of 2002 of RMB 80 cents per every 10 shares amounting to a total dividend of RMB 98,133 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 2003. The dividends declared in respect of 2001 was RMB 49,066.

9 Property, plant and equipment

	Buildings	Plant & Machinery	Vehicles	Construction in progress	Others	Total
Year ended 31 December 2001						
Opening net book amount	435,451	1,532,643	14,562	293,765	12,495	2,288,916
Additions	8,604	8,762	1,587	246,056	6,305	271,314
Transfers	31,712	104,272	4,837	(146,829)	6,008	-
Disposals	(741)	(5,556)	(289)	(5,808)	(61)	(12,455)
Impairment charge (Note 2)	-	(10,050)	(14)	-	-	(10,064)
Depreciation charge (Note 2)	(15,914)	(262,479)	(3,506)	-	(6,274)	(288,173)
Closing net book amount	459,112	1,367,592	17,177	387,184	18,473	2,249,538
At 31 December 2001						
Cost or valuation	552,958	2,420,012	30,084	387,184	39,411	3,429,649
Accumulated depreciation	(93,846)	(1,052,420)	(12,907)	-	(20,938)	(1,180,111)
Net book amount	459,112	1,367,592	17,177	387,184	18,473	2,249,538
Year ended 31 December 2002						
Opening net book amount	459,112	1,367,592	17,177	387,184	18,473	2,249,538
Acquisition of subsidiaries (Note 29)	30,460	67,265	4,029	873	1,039	103,666
Additions	8,797	8,981	4,009	519,240	3,253	544,280
Transfers	57,143	320,994	6,185	(387,922)	3,600	-
Disposals	(10,676)	(25,822)	(982)	(14,763)	(265)	(52,508)
Depreciation charge (Note 2)	(19,727)	(274,762)	(6,983)	-	(8,009)	(309,481)
Closing net book amount	525,109	1,464,248	23,435	504,612	18,091	2,535,495
At 31 December 2002						
Cost or valuation	636,125	2,743,962	40,516	504,612	45,370	3,970,585
Accumulated depreciation	(111,016)	(1,279,714)	(17,081)	-	(27,279)	(1,435,090)
Net book amount	525,109	1,464,248	23,435	504,612	18,091	2,535,495

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

During 2002, interest expenses of RMB 1,284 (2001: RMB 4,806) were capitalised in the cost of construction in progress at the rate of 6.21%.

All of the Group's buildings are located in PRC. The title to buildings of net book value RMB 75,289 (2001: RMB 106,501) are in the process of being transferred to Changan Suzuki Automobile Co., Ltd.

As at 31 December 2002, buildings with a net book value of RMB 8,670 (2001: equipment with a net book value of RMB 493,384) has been pledged as securities for short-term loans (see note 21).

The Company was established in the 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. Subsequent revaluations have not been performed and all further additions have been recorded at cost.

10**Land use rights**

	2002	2001
At beginning of year	83,719	86,467
Acquisition of subsidiaries (Note 29)	45,537	-
Additions	58,158	-
Disposals	(26,971)	-
Impairment charge	(6,700)	-
Amortisation charge	(4,088)	(2,748)
At end of year	<u>149,655</u>	<u>83,719</u>

11**Intangible assets****Year ended 31 December 2001**

Opening net book amount	17,902
Additions	3,573
Amortisation charge (Note 2)	(2,026)
Closing net book amount	<u>19,449</u>

At 31 December 2001

Cost	23,840
Accumulated amortisation	(4,391)
Net book amount	<u>19,449</u>

Year ended 31 December 2002

Opening net book amount	19,449
Acquisition of subsidiaries (Note 29)	33,736
Additions	22,469
Amortisation charge (Note 2)	(8,958)
Write off	(19,143)
Closing net book amount	<u>47,553</u>

11**Intangible assets (continued)****At 31 December 2002**

Cost	60,902
Accumulated amortisation	(13,349)



Net book amount

47,553

The above represents Trademark of “Chana” and production technology for the advanced model of the Alto mini-sedan and “Changan Star” automobiles transferred from Nanjing Changan Automobile Co., Ltd. and Suzuki Motor Corporation.

12

Investments in associates

	2002	2001
At the beginning of year	157,589	-
Increase in investments	46,806	168,589
Share of results	(48,245)	(11,000)
At end of year	156,150	157,589

The principal associates, both of which are unlisted, are:

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

13

Available-for-sale investments

	2002	2001
Southwestern Securities Co., Ltd.	50,000	50,000
Chongqing Baoteman Biotechnology Co., Ltd	3,000	3,000
Chongqing Certification Authority Co., Ltd	1,000	1,000
Sub-total	54,000	54,000
Less: Provisions	(12,780)	-
Total	41,220	54,000

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 3.07% in Southwestern Securities. Provision of RMB 12,780 have been made.

The investments are valued at cost less provision. Directors are of the opinion that the realizable value will not fall below the carrying value.

14

Other non-current assets

(1)

Deferred assets**Year ended 31 December 2001**

Opening net book amount	5,822
Additions	6,116
Amortisation charge (Note 2)	(1,634)
Closing net book amount	10,304



14

Other non-current assets (continued)**At 31 December 2001**

Cost	19,030
Accumulated amortisation	(8,726)
Net book amount	10,304

Year ended 31 December 2002

Opening net book amount	10,304
Acquisition of subsidiaries (Note 29)	3,299
Additions	5,372
Amortisation charge (Note 2)	(6,473)
Closing net book amount	12,502

At 31 December 2002

Cost	27,701
Accumulated amortisation	(15,199)
Net book amount	12,502

The above represent utility capacity enhancement fee.

(2)

Long-term receivable

The company has a loan facility for financing of production technology upgrading of RMB 1,200,000 of which RMB 205,000 was granted by the bank to Qingshan Industries Company Limited. As 31 December 2002, loan of RMB 42,100 (2001: RMB 22,100) was made to Qingshan Industries Company Limited. The loan will be repaid in 2008. Interest cost on the bank loan taken to make this loan will be paid by Qingshan Industries Company Limited, who is also responsible for payment of the loan.

15

Deferred tax assets

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:

	2002	2001
At beginning of year	69,110	-
Income statement charge (Note 5)	28,102	69,110
At end of year	97,212	69,110

Deferred income tax arose from temporary differences from provisions of RMB 75,478 (2001: RMB 49,785) and impairment of assets of RMB 21,734 (2001: RMB 19,325).

16

Inventories

	2002	2001
Raw materials (at net realisable value)	384,026	284,458
Work in progress (at cost)	51,685	36,147
Finished goods (at net realisable value)	1,262,763	384,174
Consumables (at cost)	16,987	4,742
	1,715,461	709,521



17

Receivables and prepayments

	2002	2001
Trade receivables	378,015	1,219,148
Less : Provision for bad and doubtful debts	(114,848)	(90,664)
Trade receivables – net	263,167	1,128,484
Notes receivables	690,350	267,784
Advances to suppliers	78,959	22,759
Other receivables	71,521	65,104
	1,103,997	1,484,131

Receivables from related parties are disclosed in note 31.

18

Trading investments

As of 31 December 2001, trading investments comprise principally marketable equity securities of RMB 450 and funds placed with investment companies of RMB 5,000.

19

Cash and cash equivalents

	2002	2001
Cash at bank and in hand	2,873,901	1,804,394

As of 31 December 2002, cash balances of RMB 90,546 (2001: RMB 83,581) were held as the guaranteed deposits for notes payable and letter of credit. Cash balances of RMB 111,647 (2001: RMB 272,195) can only be used for specific projects. Cash balances of RMB 10,000 (2001: RMB 10,000) were held as security for long term bank borrowings and were excluded from cash and cash equivalents presented in the cashflow statement.

20

Trade and other payables

	2002	2001
Trade payables	2,484,661	1,124,129
Notes payable	196,280	552,794
Dividend payable	18,620	-
Other payables	265,012	152,388
Accrued expenses	330,611	80,779
Accrued sales compensation	230,989	333,710
Accrued payroll and welfare	65,120	72,278
Advances from customers	105,790	68,723
	3,697,083	2,384,801

Payables to related parties are disclosed in note 31.

21

Borrowings

	2002	2001
Current		
Bank borrowings		
- unsecured	160,000	265,000
- secured	56,500	256,750
	216,500	521,750
Non-current		
Bank borrowings		
- unsecured	150,000	180,000



Total borrowings	366,500	701,750
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21**Borrowings (continued)**

Current bank loans as at 31 December 2002 bear interest at rates ranging from 5.04% to 5.85% per annum (2001: 5.58% to 5.85%). Of these loans, RMB 20,000 (2001: RMB120,000) were secured by buildings with net book value of RMB 8,670 (2001: production equipment with net book value of RMB 493,384) and RMB 20,000 (2001: 60,000) were guaranteed by Southwest Ordnance Industries Corporation, a related company. The remaining bank loans were guaranteed by letter of credit.

Non-current bank loans bear interest at rates ranging from 5.76% to 6.21% (2001: 6.03%) and were guaranteed by CAC.

Maturity of non-current borrowings:

	2002	2001
Between 2 and 5 years	-	80,000
Over 5 years	150,000	100,000
	<u>150,000</u>	<u>180,000</u>

Borrowing facilities

The Group has the following undrawn committed borrowing facilities:

	2002	2001
Floating rate		
— expiring beyond one year	1,050,000	1,100,000

The facilities have been arranged to help finance specific projects.

22**Retirement benefit obligations**

	2002	2001
At beginning of year	33,000	-
Provisions	-	33,000
Payments	(4,044)	-
At end of year	<u>28,956</u>	<u>33,000</u>
Current	1,956	6,000
Non-current	27,000	27,000
	<u>28,956</u>	<u>33,000</u>

The above obligations were actuarially recorded using the projected unit credit method.

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

i. Discount rate adopted: 4%

ii. Mortality: average life expectancy of residents in the PRC.



23

Provisions

At beginning of year	20,976
Acquisition of subsidiaries (Note 29)	10,351
Charged for the year	166,571
Utilised during year	(101,334)
At end of year	96,564

The above represents the warranty costs for repairs and maintenance, which are estimated based on present after-sale service policies and prior years' experiences on such costs incurred.

24

Contingencies**Contingent liabilities**

The Company has provided a guarantee for bank loan of RMB 31,200 of Changan Ford Automobile Co., Ltd. The period of the guarantee is from 27 March 2002 to 30 March 2004. CAC has also provided a counter-guarantee to the Company on behalf of Changan Ford Automobile Co., Ltd.

25

Commitments

(1)

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:

	2002	2001
Contracted	408,674	610,520
Authorised but not contracted	1,008,331	2,070,190
	1,417,005	2,680,710

(2)

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:

	2002	2001
Production technology development fee		
Not later than 1 year	25,551	37,267
Later than 1 year and not later than 5 years	37,625	69,290
	63,176	106,557
Lease of building		
Not later than 1 year	16,618	-
Later than 1 year and not later than 5 years	55,888	-
	72,506	-
Lease of land		
Not later than 1 year	3,549	-
Later than 1 year and not later than 5 years	12,790	-
Later than 5 years	14,286	-



30,625

-

26 Share capital and share premium

	2002	2001
Share capital		
708,687 A shares of par value RMB1 each (non-traded)	708,687	708,687
167,979 A shares of par value RMB1 each (traded)	167,979	167,979
350,000 B shares of par value RMB1 each (traded)	350,000	350,000
At 31 December	1,226,666	1,226,666
Share premium		
Balance at 1 January and at 31 December	833,438	833,438

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

27

Minority interests

	2002	2001
At beginning of year	522,797	471,879
Acquisition of subsidiaries (Note 29)	179,698	-
Newly incorporated subsidiaries	62,248	-
Share of net profit of subsidiaries	82,956	82,774
Dividend paid	(18,620)	(31,856)
At end of year	829,079	522,797

28

	Reserves		Retained by Chongqing Changan Suzuki Automobile Co., Ltd		Retained by Nanjing Changan Automobile Co., Ltd		Total
	Statutory reserve	Statutory common reserve fund	Reserve fund	Enterprise expansion fund	Statutory reserve	Statutory common reserve fund	
Year ended 31 December 2001							
Balance at 1 January 2001	60,061	60,061	89,250	38,250	-	-	247,622
Transfers	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
Year ended 31 December 2002							
Balance at 1 January 2002	76,916	76,916	133,110	61,200	-	-	348,142
Transfers	96,530	96,529	67,830	18,870	36	18	279,813
Balance at 31 December 2002	173,446	173,445	200,940	80,070	36	18	627,955

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, Chongqing Changan Suzuki Automobile Co., Ltd. (hereafter referred to "Changan Suzuki"), a foreign investment enterprise and Nanjing Changan Automobile Co., Ltd. (hereafter referred to "Nanjing Changan"), a domestic enterprise.

Reserves (continued)**Statutory reserve**

According to their Articles of Association, the Company and Nanjing Changan 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 and Nanjing Changan.

Statutory common reserve fund

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

The statutory common reserve public welfare fund can only be utilized on capital items for the collective benefits of the Companies' 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 and Nanjing Changan.

Reserve fund

According to the resolution of the Board of Directors of Changan Suzuki for the 2002 profit appropriation, the amount of RMB 133,000 was transferred to reserve fund from the distributable profits at 31 December 2002.

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 2002 profit appropriation, the amount of RMB 37,000 was transferred to enterprise expansion fund from the distributable profits at 31 December 2002.

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 other than in liquidation of Changan Suzuki.

**29 Acquisition and disposal of subsidiaries****(1) Acquisition**

During the year, the Group acquired Nanjing Changan and 146 sale companies from CAC. The acquisition of Nanjing Changan was made on 30 April 2002 at a consideration of RMB 52,350. The 146 sales companies were acquired in 3 batches. The first batch of 13 companies were acquired on 31 January 2002 at a consideration of RMB 4,040. The second batch of 78 sales companies were acquired on 31 March 2002 at a consideration of RMB 23,254. The third batch of 55 sales companies were acquired on 30 June 2002 at nil consideration due to the aggregate net deficit position of these companies.

Details of the companies acquired are as follows:

Name of company acquired	Equity interest
Nanjing Changan Automobile Co., Ltd.	22.56%
Foshan Changan Automobile Sales Co., Ltd.	100%
Hebei Changan Automobile Sales Co., Ltd.	100%
Luoyang Changan Automobile Sales Co., Ltd.	100%
Nanyang Changan Automobile Sales Co., Ltd.	100%
Pingdingshan Changan Automobile Sales Co., Ltd.	100%
Sanmenxia Changan Automobile Sales Co., Ltd.	100%
Tianjin Changan Automobile Sales Co., Ltd.	100%
Guangzhou Changan Automobile Sales Co., Ltd.	100%
Shenzhen Changan Automobile Sales Co., Ltd.	100%
Huizhou Changan Automobile Sales Co., Ltd.	100%
Nanhai Changan Automobile Sales Co., Ltd.	100%
Jiangmen Changan Automobile Sales Co., Ltd.	100%
Haikou Changan Automobile Sales Co., Ltd.	100%
Dalian Changan Automobile Sales Co., Ltd.	100%
Huhehaote Changan Automobile Sales Co., Ltd.	100%
Lanzhou Changan Automobile Sales Co., Ltd.	100%
Jinghong Changan Automobile Sales Co., Ltd.	100%
Zhaotong Changan Automobile Sales Co., Ltd.	100%
Nanping Changan Automobile Sales Co., Ltd.	100%
Shipingqiao Changan Automobile Sales Co., Ltd.	100%
Haerbin Changan Automobile Sales Co., Ltd.	100%
Wulumuqi Changan Automobile Sales Co., Ltd.	100%
Zhejiang Changan Automobile Sales Co., Ltd.	100%
Wuhan Changan Automobile Sales Co., Ltd.	100%
Yuxi Changan Automobile Sales Co., Ltd.	100%
Hefei Changan Automobile Sales Co., Ltd.	100%
Shandong Changan Automobile Sales Co., Ltd.	100%
Zhengzhou Changan Automobile Sales Co., Ltd.	100%
Dongguan Changan Automobile Sales Co., Ltd.	100%
Zhanjiang Changan Automobile Sales Co., Ltd.	100%
Shunde Changan Automobile Sales Co., Ltd.	100%
Nanchang Changan Automobile Sales Co., Ltd.	100%
Fuzhou Changan Automobile Sales Co., Ltd.	100%
Shenyang Changan Automobile Sales Co., Ltd.	100%
Lianyungang Changan Automobile Sales Co., Ltd.	100%
Luohe Changan Automobile Sales Co., Ltd.	100%
Fanyu Changan Automobile Sales Co., Ltd.	100%
Zhaoqing Changan Automobile Sales Co., Ltd.	100%


29 Acquisition and disposal of subsidiaries (continued)
(1) Acquisition

Maoming Changan Automobile Sales Co., Ltd.	100%
Shaoxing Changan Automobile Sales Co., Ltd.	96.67%
Anyang Changan Automobile Sales Co., Ltd.	96.11%
Binzhou Changan Automobile Sales Co., Ltd.	95%
Dongying Changan Automobile Sales Co., Ltd.	95%
Laiwu Changan Automobile Sales Co., Ltd.	95%
Liaocheng Changan Automobile Sales Co., Ltd.	95%
Taian Changan Automobile Sales Co., Ltd.	95%
Weifang Changan Automobile Sales Co., Ltd.	95%
Langfang Changan Automobile Sales Co., Ltd.	95%
Cangzhou Changan Automobile Sales Co., Ltd.	95%
Puyang Changan Automobile Sales Co., Ltd.	95%
Datong Changan Automobile Sales Co., Ltd.	95%
Jincheng Changan Automobile Sales Co., Ltd.	95%
Yuncheng Changan Automobile Sales Co., Ltd.	95%
Loudi Changan Automobile Sales Co., Ltd.	95%
Enshi Changan Automobile Sales Co., Ltd.	95%
Zhongshan Changan Automobile Sales Co., Ltd.	95%
Guilin Changan Automobile Sales Co., Ltd.	95%
Yulin Changan Automobile Sales Co., Ltd.	95%
Jiujiang Changan Automobile Sales Co., Ltd.	95%
Jilin Changan Automobile Sales Co., Ltd.	95%
Xining Changan Automobile Sales Co., Ltd.	95%
Yinchuan Changan Automobile Sales Co., Ltd.	95%
Weinan Changan Automobile Sales Co., Ltd.	95%
Qingdao Changan Automobile Sales Co., Ltd.	95%
Xiamen Changan Automobile Sales Co., Ltd.	95%
Quanzhou Changan Automobile Sales Co., Ltd.	95%
Wenzhou Yuzhou Changan Automobile Sales Co., Ltd.	95%
Yichang Changan Automobile Sales Co., Ltd.	95%
Xiangfan Changan Automobile Sales Co., Ltd.	95%
Tangshan Changan Automobile Sales Co., Ltd.	95%
Baoji Changan Automobile Sales Co., Ltd.	95%
Shangrao Changan Automobile Sales Co., Ltd.	95%
Yichun Changan Automobile Sales Co., Ltd.	95%
Ganzhou Changan Automobile Sales Co., Ltd.	95%
Sanming Changan Automobile Sales Co., Ltd.	95%
Tianshui Changan Automobile Sales Co., Ltd.	95%
Nanjing Changan Automobile Sales Co., Ltd.	90%
Jining Changan Automobile Sales Co., Ltd.	90%
Rizhao Changan Automobile Sales Co., Ltd.	90%
Weihai Changan Automobile Sales Co., Ltd.	90%
Yantai Changan Automobile Sales Co., Ltd.	90%
Dezhou Changan Automobile Sales Co., Ltd.	90%
Zibo Changan Automobile Sales Co., Ltd.	90%
Baoding Changan Automobile Sales Co., Ltd.	90%
Handan Changan Automobile Sales Co., Ltd.	90%
Xingtai Changan Automobile Sales Co., Ltd.	90%
Chengde Changan Automobile Sales Co., Ltd.	90%
Hengshui Changan Automobile Sales Co., Ltd.	90%
Qinhuangdao Changan Automobile Sales Co., Ltd.	90%
Zhangjiakou Changan Automobile Sales Co., Ltd.	90%

29 Acquisition and disposal of subsidiaries (continued)

(1) Acquisition

Jiaozuo Changan Automobile Sales Co., Ltd.	90%
Shangqiu Changan Automobile Sales Co., Ltd.	90%
Xinxiang Changan Automobile Sales Co., Ltd.	90%
Xinyang Changan Automobile Sales Co., Ltd.	90%
Xuchang Changan Automobile Sales Co., Ltd.	90%
Zhoukou Changan Automobile Sales Co., Ltd.	90%
Zhumadian Changan Automobile Sales Co., Ltd.	90%
Linfen Changan Automobile Sales Co., Ltd.	90%
Changzhi Changan Automobile Sales Co., Ltd.	90%
Jinhua Changan Automobile Sales Co., Ltd.	90%
Taizhou Changan Automobile Sales Co., Ltd.	90%
Nantong Changan Automobile Sales Co., Ltd.	90%
Xuzhou Changan Automobile Sales Co., Ltd.	90%
Yancheng Changan Automobile Sales Co., Ltd.	90%
Huaian Changan Automobile Sales Co., Ltd.	90%
Hengyang Changan Automobile Sales Co., Ltd.	90%
Jishou Changan Automobile Sales Co., Ltd.	90%
Zhangjiajie Changan Automobile Sales Co., Ltd.	90%
Anqing Changan Automobile Sales Co., Ltd.	90%
Fuyang Changan Automobile Sales Co., Ltd.	90%
Wuhu Changan Automobile Sales Co., Ltd.	90%
Chaozhou Changan Automobile Sales Co., Ltd.	90%
Shantou Changan Automobile Sales Co., Ltd.	90%
Nanning Changan Automobile Sales Co., Ltd.	90%
Changchun Changan Automobile Sales Co., Ltd.	90%
Jinzhou Changan Automobile Sales Co., Ltd.	90%
Chifeng Changan Automobile Sales Co., Ltd.	90%
Pingliang Changan Automobile Sales Co., Ltd.	90%
Yan'an Changan Automobile Sales Co., Ltd.	90%
Zunyi Changan Automobile Sales Co., Ltd.	90%
Tongren Changan Automobile Sales Co., Ltd.	90%
Nanchong Changan Automobile Sales Co., Ltd.	90%
Xi'an Changan Automobile Sales Co., Ltd.	90%
Ningbo Changan Automobile Sales Co., Ltd.	90%
Hangzhou Yuzhou Changan Automobile Sales Co., Ltd.	90%
Guangzhou Changan Automobile Sales Co., Ltd.	90%
Linhe Changan Automobile Sales Co., Ltd.	90%
Baotou Changan Automobile Sales Co., Ltd.	90%
Liuan Changan Automobile Sales Co., Ltd.	90%
Bengbu Changan Automobile Sales Co., Ltd.	90%
Jiaxing Changan Automobile Sales Co., Ltd.	90%
Shiyan Changan Automobile Sales Co., Ltd.	90%
Changde Changan Automobile Sales Co., Ltd.	90%
Huaihua Changan Automobile Sales Co., Ltd.	90%
Zhuzhou Changan Automobile Sales Co., Ltd.	90%
Heze Changan Automobile Sales Co., Ltd.	90%
Beihai Changan Automobile Sales Co., Ltd.	90%
Yining Changan Automobile Sales Co., Ltd.	90%
Hami Changan Automobile Sales Co., Ltd.	90%
Kuitun Changan Automobile Sales Co., Ltd.	90%
Bazhou Changan Automobile Sales Co., Ltd.	90%
Xinjiang Akesu Changan Automobile Sales Co., Ltd.	90%

29 Acquisition and disposal of subsidiaries (continued)

**(1) Acquisition**

Baoshan Changan Automobile Sales Co., Ltd.	90%
Guanghan Changan Automobile Sales Co., Ltd.	90%
Shaoguan Changan Automobile Sales Co., Ltd.	90%
Linyi Changan Automobile Sales Co., Ltd.	80%

The acquired business contributed revenues of RMB 2,347,924 and operating loss of RMB 9,256 to the Group for the period from acquisition date to 31 December 2002, and its assets and liabilities at 31 December 2002 were RMB 1,302,314 and RMB 1,031,262 respectively.

Details of net assets acquired and goodwill are as follows:

	i. Purchase consideration:	
	Cash paid	79,644
	Fair value of net assets acquired	60,501
	Goodwill	19,143

ii. The assets and liabilities arising from the acquisition are as follows:

Cash and cash equivalents	86,138
Property, plant and equipment (Note 9)	103,666
Land use rights (Note 10)	45,537
Intangible assets (Note 11)	33,736
Other non-current assets (Note 14)	3,299
Inventories	715,760
Receivables	266,393
Payables	(971,397)
Provisions (Note 23)	(10,351)
Tax payable	(9,532)
Borrowings	(23,050)
Minority interests (Note 27)	(179,698)
Fair value of net assets acquired	60,501
Goodwill (Note 2)	19,143
Total purchase consideration paid	79,644
Less: Cash and cash equivalents in subsidiaries acquired	(86,138)
Cash inflow on acquisition	(6,494)

(2)**Disposal**

On 18 March 2002, the Company disposed the equity of Chongqing Jiangling Electro-mechanical Company ("Jiangling") to Chongqing Changan Support Services Company Limited at the selling price of RMB 10. At 28 February 2002, Jiangling's total assets were RMB 10,314, total liabilities were RMB 9,279. Total assets included accumulated losses of RMB 2,127 which are booked as receivable due from the Company in accordance with the profit distribution agreement. If this receivable is excluded, net assets will be RMB -1,092.

30 Cash generated from operations

	2002	2001
Profit before tax	1,124,537	260,800
Provision for bad debt and bad debt written off (Note 2)	25,779	92,031
Provision for stocks (Note 2)	18,970	(952)
Impairment of property, plant and equipment (Note 9)	-	10,064
Impairment of land use rights (Note 10)	6,700	-
Depreciation of property, plant and equipment (Note 9)	309,481	288,173
Amortisation of Land use rights (Note 10)	4,088	2,748
Amortisation of intangible assets (Note 11)	8,958	2,026
Amortisation of deferred assets (Note 14)	6,473	1,634
Loss on disposal of property, plant and equipment (Note 2)	27,727	4,972
Loss on disposal of land use rights (Note 2)	20,479	-
Financial expenses (Note 3)	24,542	56,817
Investment loss/(income) (Note 2)	31,923	(12,511)
Share of results of associates (Note 12)	48,245	11,000
Change in working capital (excluding the effects of acquisition of subsidiaries)	-	-
(Increase)/Decrease in inventories	(987,696)	193,884
(Increase)/Decrease in operating receivables	499,782	707,687
Increase/(Decrease) in operating payables	916,368	(642,193)
Cash generated from operations	2,086,356	976,180

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

	2002	2001
Net book amount of property, plant and equipment (Note 9)	52,508	12,455
Less: Loss on disposal of property, plant and equipment	(27,727)	(4,972)
Receivables	-	(6,698)
Net book amount of property, plant and equipment used for investment	(4,146)	-
Proceeds from sale of property, plant and equipment	20,635	785

31**Related party transactions**

The Company is controlled by CAC (incorporated in PRC), which owns 57.78% of the Company's shares. The remaining 42.22% of the shares are widely held. The ultimate parent of the Group is China South Industries Group ("CSIG", incorporated in PRC).

Related parties, other than subsidiaries, and their relationship with the Company are as follows:

Related parties' name	Relationship
Chongqing Lear Changan Automobile Decorating Co., Ltd.	Subsidiary of CAC
Changan Automobile Manufacturing Factory	Subsidiary of CAC
Changan Mini Vehicles Parts Factory	Subsidiary of CAC
Chongqing Changan Mini Vehicles Parts Sales Company	Subsidiary of CAC
Chongqing Changan Automobile Machinery Factory	Subsidiary of CAC



Chongqing Changan Transportation Company
Chongqing Changan Trading Company
Chongqing Changan Kuayue Automobile Co., Ltd.
Changan Kuayue Parts Sales Company
Changan Machinery Factory
Changan Automobile Rubber Parts Factory

Subsidiary of CAC
Subsidiary of CAC
Subsidiary of CAC
Subsidiary of CAC
Subsidiary of CAC
Subsidiary of CAC



31

Related party transactions (continued)

Chongqing Changan Construction Co., Ltd.	Subsidiary of CAC
Chongqing Jiangli Machinery Factory	Subsidiary of CAC
Chongqing Jiangchuan Machinery Factory	Subsidiary of CAC
Chongqing Jiangchao Engine Industry Co., Ltd.	Subsidiary of CAC
Chengdu Wanyou Economic Technological Development Co., Ltd.	Subsidiary of CSIG
Chongqing Changan Minsheng Logistics Co., Ltd.	Subsidiary of CAC
Changan Shengli Automobile Company	Subsidiary of CAC
Chongqing Changan Design Academy	Subsidiary of CAC
Chongqing Changan Construction Supervision Co., Ltd.	Subsidiary of CAC
Chongqing Changan Support Services Co., Ltd.	Subsidiary of CAC
Ordinance Finance Company	Subsidiary of CSIG
Chongqing Changan Information Technology Co., Ltd.	Associate
Changan Ford Automobile Co., Ltd.	Associate
Southwest Ordinance Industries Corporation	Subsidiary of CSIG

The following significant transactions were carried out with related parties:

(1) Sales of goods and services

	2002	2001
Sales of goods:		
Nanjing Changan Automobile Co., Ltd.	296,860	123,971
CAC and its related companies	884,204	2,459,030
Chengdu Wanyou Economic Technological Development Co., Ltd.	431,468	258,032
	1,612,532	2,841,033
Interest income:		
CAC and its related companies	6,185	-
Rental income:		
CAC	4,347	-

(2)**Purchases of goods and services**

	2002	2001
Purchases of goods:		
Chongqing Lear Changan Automobile Decorating Co., Ltd	231,434	114,753
Chongqing Changan Kuayue Automobile Co., Ltd	63,303	42,615
Changan Automobile Manufacturing Factory	42,814	52,059
CAC and its related companies	549,365	257,837
Chongqing Jiangli Machinery Factory	74,243	44,294
Chongqing Jiangchuan Machinery Factory	59,919	27,348
Chongqing Jiangchao Engine Industry Corp.	16,803	8,883
Changan Automobile Rubber Parts Factory	12,291	-
Changan Mini Vehicles Parts Factory	4,910	-
	1,055,082	547,789
Purchases of services:		
CAC		
Trademark fee	12,050	9,182
Land use rights	2,824	1,694
Building rental fee	16,618	7,623
Management services	135,778	115,840
Construction fee	7,621	-



31

Related party transactions (continued)

(2)

Purchases of goods and services (continued)

	2002	2001
Chongqing Changan Minsheng Logistics Co., Ltd.		
Transportation fee	146,294	-
Chongqing Changan Information Technology Co., Ltd.		
Construction fee	12,347	-
Chongqing Changan Construction Co., Ltd.		
Construction fee	25,593	-
Chongqing Changan Design Academy		
Construction fee	1,712	-
Chongqing Changan Transportation Company		
Construction fee	210	-
Chongqing Changan Construction Supervision Co., Ltd.		
Construction fee	298	-
	361,345	134,339

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

Receivables from related parties:	2002	2001
CAC and its related companies	17,277	876,473
Chengdu Wanyou Economic Technological Development Co., Ltd.	72,824	109,828
Southwest Ordnance Industries Corporation	16,000	-
Changan Ford Automobile Co. Ltd.	761	-
	106,862	986,301
Payables to related parties:	2002	2001
Chongqing Lier Changan Automobile Decorating Co., Ltd.	102,588	41,493
Chongqing Changan Kuayue Automobile Co., Ltd.	22,439	16,523
Changan Automobile Manufacturing Factory	3,249	345
Chongqing Jiangli Machinery Factory	14,866	6,689
Chongqing Jiangchuan Machinery Factory	9,082	3,018
Chongqing Jiangchao Engine Industry Corporation	3,984	1,032
Changan Automobile Rubber Parts Factory	4,483	-
Changan Mini Vehicles Parts Factory	1,231	-
Chongqing Changan Minsheng Logistics Co. Ltd.	36,543	-
CAC and its related companies	4,798	-
Chongqing Changan Information Technology Co. Ltd.	50	-
	203,313	69,100

(4) Deposits with related companies

As at 31 December 2002, the Company had deposits of RMB 235,137 (2001: RMB 352,074) with Ordnance Finance Company.

(5) Director's remuneration

In 2002 the total remuneration of the directors was RMB 358 (2001: RMB 31).

32

Principal subsidiaries

Entity	Country of incorporation	Principal activities
Chongqing Changan Import and Export Co., Ltd (95%)	PRC	Import and export of automobiles wholesale and retail of automobile spare parts
Chongqing Changan Automobile Sales Co., Ltd (100%)	PRC	Sale of automobiles, engines and spare parts
Chongqing Changan Suzuki Automobile Co., Ltd (51%)	PRC	Manufacture and sale of automobiles and engines
Nanjing Changan Automobile Co., Ltd (36.55%)	PRC	Manufacture and sale of mini auto-mobles, engines and spare parts
Hebei Changan Automobile Co., Ltd (40.11%)	PRC	Manufacture and sale of auto-mobles, engines and spare parts
Chongqing Anfu Automobile Co., Ltd (50%)	PRC	Sale of automobiles, engines and spare parts

The Company is deemed to have effective control over Nanjing Changan because the shareholders who held 23.45% of the equity has entrusted the management of Nanjing Changan to the Company.

The Company is deemed to have effective control over Hebei Changan Automobile Co., Ltd. (hereafter referred to "Hebei Changan") because the shareholders held 39% of the equity have entrusted the management of Hebei Changan to the Company.

The Company is deemed to have effective control over Chongqing Anfu Automobile Co., Ltd because it determines the strategy and assigns its management team to participate in the management of the Company.

33 Post balance sheet events**(1) Vehicle logistics agreement**

On 8 January 2003, the Company signed a vehicle logistics agreement with Chongqing Changan Minsheng Logistics Co. Ltd., which is a related company of CAC. The agreement will be in effect for 3 years. The latter will render vehicle distribution services to the Company. Transportation charges by the latter will be dependent on the mode of distribution, the product type and the distance covered.

(2) The Board of Directors have given approval for the Company to make the following investments in 2003:

- i.** RMB 25,000 will be invested in Nanjing Changan for upgrading in skills and working capital. After the investment, the Company's equity interest will be increased to 41.92%.
- ii.** RMB 81,000 will be invested in Hebei Changan for upgrading in skills, purchase of production facilities and toolings, etc. After the investment, the Company's equity interest will be increased to 68.65%.

The above is subject to approval in the shareholders' meeting.

33 Post balance sheet events (continued)**(3) The Board of Directors have given approval for the Company to acquire the 24% equity interest in Changan Ford Automobile Co Ltd from CAC in 2003. The consideration will be at appraisal value. After the acquisition, the Company's equity interest will be 50%. Further, Changan Ford Automobile Co., Ltd. plan to increase its capital by RMB 80,000 in 2003 of which the Company will invest RMB 40,000.**

The above is subject to approval in the shareholders' meeting.

34 Reclassification of comparative figures

- (1)

Cash and cash equivalents:

Temporary deposits of RMB 5,000 previously included in receivables and prepayments are presented in cash and cash equivalents.

- (2)

Other non-current assets

A loan of RMB 22,100 made to Qingshan Industries Company Limited previously included in receivables and prepayments are presented under other non-current assets.

- (3)

Intangible assets

Intangible assets of RMB 19,449 previously included in other non-current assets are separately presented.

- (4) Provisions

Provisions for warranty costs of RMB 20,976 previously included in trade and other payables-accrued expenses are separately presented.

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

	Net assets	Net profit
As reported in the accounts of the Group under PRC accounting regulations		3,301,363,834,997
9. Staff and worker's bonus and welfare fund of Changan Suzuki charged against profit after taxation	-	(18,000)
10. Amortisation of goodwill arising on consolidation	(17,171)	858
11. Adjustment of amortisation of pre-operating expenses in Changan Suzuki	1,229	-
12. Reversal of revaluation surpluses of long term assets relating to the revaluation in 1995	(7,877)	-
13. Deferred tax assets	97,212	28,102
14. Reversal of equity share of the loss of Changan Ford Automobile Co., Ltd. in 2001	-	11,000
15. Reversal of capital surplus to other operating income	-	8,189
16. Dividend declared in 2002	98,133	-
As restated in conformity with IFRS	3,472,889	865,146

XII. Documents for inspection

- I. Financial statements with signatures and stamps of the legal representative, the head of the accounting and the head of accounting departments.
- II. The original copy of 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: Mr. Yin Jiaxu

General Manager: Mr. Zhao Luchuan

Chongqing Changan Automobile Company Limited

April 8, 2003