

Chongqing Changan Automobile Company Limited



2006 Semi-annual Report

(B Share)

I .Important notes and contents

Important notes

The Board of Directors& Supervisory Committe of Chongqing Changan Automobile Co., Ltd. (hereinafter referred to as “the Company”) , the directors, supervisors and senior management guarantee that the information contained in this report is free of false records, misleading statements or significant omissions, and assume individual and joint liabilities for the truthfulness, accuracy and integrity of the report.

No director has raised any disagreement with regard to the truthfulness, accuracy and completeness of the report.

Director Mr. Yin Jiaxu, Mr. Dengjian, Mr.Wang Tingwei, Mr Zhou Wenchao,Independent Director Mr. Guo Konghui,Wen Zhongyu did not attend the meeting for other business reasons and Mr. Yin Jiaxu entrusted Mr Xu Liuping, Mr. Dengjian and Mr Wang Tingwei entrusted Mr Cui Yunjiang, ,and Mr. Guo Konghui entrusted Mr. Xia Dongling,Mr Wen Zhongyu entrusted Mr Gao Zhikai to attend the meeting and vote on his behalf.

The semiannual financial report is not audited.

Chairman Mr. Yin Jiaxu, General Manager Mr. Zhang Baolin and Chief Accountant Mr. Cui Yunjiang guarantee the truthfulness and completeness of the financial statements of the semiannual report.

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

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II. General Introduction of the Company

1. The Company's legal Chinese name: 重庆长安汽车股份有限公司
The Company's legal English name: Chongqing Changan Automobile Company Limited
2. Place of listing: Shenzhen Stock Exchange
Abbreviated name of the stock: G Changan Changan B
Stock Code: 000625 200625
3. 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@changan.com.cn
4. Legal representative of the Company: Mr. Yin Jiayu
5. Secretaries of the Board: Mr. Cui Yunjiang, Ms. Li Jun
Address: No. 260, Jian Xin East Road, Jiang Bei District, Chongqing
Telephone: (023) 67594009
Fax: (023) 67866055
Email address: cazqc@changan.com.cn
6. Publications for information disclosure of the Company: *China Securities*, *Securities Times* and *Hong Kong Commercial Daily*
Website for information disclosure of the Company: <http://www.cninfo.com.cn>
Filing Location of Semiannual Report: Office of the Board of Directors
7. Extracts of accounting and operating data

Items	As at 30 June,2006	As at 31 Dec,2005	Increase/Decrease(%)
Current assets (RMB thousand)	11,366,149	10,343,233	9.89%
Current liabilities (RMB thousand)	10,654,528	9,257,554	15.09%
Total assets(RMB thousand)	20,766,245	18,793,387	10.50%
Shareholder's equity(excluding minority interest) (RMB thousand)	6,771,904	6,440,137	5.15%

Net assets per share(RMB yuan/share)	4.18	3.97	5.29%
Adjusted net assets per share(RMB yuan/share)	3.75	3.67	2.18%
	Reporting period (January-June)	Corresponding period of prior year	Increase/Decrease (%)
Net Profit(RMB thousand)	332,216	293,351	13.25%
Earning per Share(yuan/share)	0.20	0.18	11.11%
Return on net assets(%)	4.91%	4.49%	0.42%
Net cash flow from operating activities(RMB yuan)	95,474	599,604	-84.08%

8. 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 under PRC accounting standards:	7,169,565	435,298
1. Reversal of revaluation surpluses from long-term assets relating to revaluation made in 1995	(14,167)	429
2. Deferred income tax	178,729	-
3. Government grants relating to assets	(239,794)	3,866
4. Government grants relating to income	-	3,000
5. Tax credit arising from purchase of domestically manufactured machinery and equipment	(35,906)	1,918
6. Reversal of amortisation of goodwill	9,421	-
7. Pre-operating expense of Changan Ford Mazda and new branch of Changan Ford	(217,769)	(112,295)
8. Provision for impairment of goodwill	(75,442)	-
9. Difference in share of result of associates	(3,918)	-
10. Others	1,185	-
As restated in conformity with IFRS:	6,771,904	332,216

III. Changes in Shares and Information about Shareholders

1 Changes on shareholdings (Unit: share)

	Balance before current change		Addition and Deduction					Balance after change	
	Quantity	Rate	Additional issued	Bonus share	Transfer from accumulated fund	Others	Subtotal	Quantity	Rate
I. Circulate with limitation shares	850,425,966	52.47%	0	-112,135,435	0	0	-112,135,435	738,290,531	45.55%
1. State-owned shares	0	0.00%	0	0	0	0	0	0	0.00%
2. State-owned legal person shares	850,399,200	52.47%	0	-112,144,000	0	0	-112,144,000	738,255,200	45.55%
3. Other domestic-held shares includes:									
Domestic legal person shares	0	0.00%	0	0	0	0	0	0	0.00%
Domestic natural person shares	26,766	0.00%	0	8,565	0	0	8,565	35,331	0.00%
4. Foreign-held shares, includes:	0	0.00%	0	0	0	0	0	0	0.00%
Foreign legal person shares	0	0.00%	0	0	0	0	0	0	0.00%
Foreign natural person shares	0	0.00%	0	0	0	0	0	0	0.00%
II. Circulated without limitation shares	770,423,234	47.53%	0	112,135,435	0	0	112,135,435	882,558,669	54.45%
1. Domestic listed RMB shares	350,423,234	21.62%	0	112,135,435	0	0	112,135,435	462,558,669	28.54%
2. Domestic listed foreign shares	420,000,000	25.91%	0	0	0	0	0	420,000,000	25.91%
3. Overseas listed foreign shares	0	0.00%	0	0	0	0	0	0	0.00%
4. Others	0	0.00%	0	0	0	0	0	0	0.00%
III. Total shares	1,620,849,200	100.00%	0	0	0	0	0	1,620,849,200	100.00%

Note: Circulated with limitation shares hold by domestic natural persons means the company shares hold by the board of director, supervisors.

2 Top ten shareholders information (Unit: share)

Total shareholders number at the end of reporting period		Total: 73,378, including 60,272 A share shareholders, and 13,106 B share shareholders			
Top ten shareholders:					
Name of shareholders	Nature of Shareholders	% of total shares	Shares hold	Shares with circulation limitation	Pledged/ Frozen shares
1.CHINA SOUTH INDUSTRY AUTOMOBILE COMPANY LIMITED	State-owned	45.55%	738,255,200	738,255,200	
2. CMBLSA RE FTIF TEMPLETON ASIAN GRW FD GTI5496	Foreign	2.89%	46,762,817		
3. NATIONAL SOCIAL INSURANCE FUND PORTFOLIO 108	Other	2.13%	34,501,284		
4. BOSHI VALUE ADDED SECURITIES INVESTMENT FUND	Other	1.67%	27,000,000		
5.BBH BOS S/A FIDELITY FD-CHINA FOCUS FD	Foreign	1.11%	18,000,000		
6. EMERGING MARKETS GROWTH FUND INC	Foreign	1.01%	16,448,057		
7. NATIONAL SOCIAL INSURANCE FUND PORTFOLIO 102	Other	0.96%	15,575,885		
8. TEMPLETON EMERGING MARKETS INVESTMENT TRUST	Foreign	0.73%	11,837,000		
9. DIT-RCM ASIAN SELECTIONS FUND PLC	Foreign	0.62%	10,075,567		
10. YUYANG SECURITY INVESTMENT FUND	Other	0.62%	10,000,090		
Top ten circulated without limitation shareholders information					
Name of shareholders	Shares hold			Types(A, B, H shares or others)	
CMBLSA RE FTIF TEMPLETON ASIAN GRW FD GTI5496	46,762,817			B share	
NATIONAL SOCIAL INSURANCE FUND PORTFOLIO 108	34,501,284			A share	
BOSHI VALUE ADDED SECURITIES INVESTMENT FUND	27,000,000			A share	
BBH BOS S/A FIDELITY FD – CHINA FOCUS FD	18,000,000			B share	
EMERGING MARKETS GROWTH FUND INC	16,448,057			B share	
NATIONAL SOCIAL INSURANCE FUND PORTFOLIO 102	15,575,885			A share	
TEMPLETON EMERGING MARKETS INVESTMENT TRUST	11,837,000			B share	

DIT-RCM ASIAN SELECTIONS FUND PLC	10,075,567	B share
YUYANG SECURITY INVESTMENT FUND	10,000,000	A share
VALUE PARTNERS CLASSIC FUND	8,452,760	B share
Related relationship of the ten largest shareholders and their consistent act	In the ten largest shareholders, the state-owned legal person shareholder China South Industry Automobile Co., Ltd. has no relationship with the other shareholders in the above table, and nor was the party who agreed to act alike as stipulated in <i>Administrative Measures on Information Disclosure Concerning Changes in Shareholdings of Listed Companies</i> ; the Company did not know whether there was relationship among the other shareholders, and nor knew whether they were the parties who agreed to act alike as stipulated in <i>Administrative Measures on Information Disclosure Concerning Changes in Shareholdings of Listed Companies</i> .	

3. Top 10 circulation with limitation shareholders information:

Number	Name of the shareholder	Shares with circulation limitation	Due Date permitted to circulate	Added circulated shares number	Circulation limitation
1.	China South Industry Automobile Co., Ltd	738,255,200	May 11, 2008	36,912,760	Once the holding non-circulated shares get the circulation permit from the due date, within 24 months do not circulate in the market or transfer; after the above mentioned 24 months, the non-circulated share circulated through stock exchange shouldn't exceed 5% of the total shares of the company within 12 months, and shouldn't exceed 10% within 24 months.
			May 11, 2009	36,912,760	
			May 11, 2010	664,429,680	

4. Changes on controlling shareholder and actual controlling person:

On March 30, 2006, Changan Automobile (Group) Co, Ltd., transferred its share of the Company to China South Industry Automobile Co., Ltd. After the transfer, China South Industry Automobile Co., Ltd became the controlling shareholder of the Company, Changan Automobile (Group) Co. Ltd. no longer hold the share of the Company. After completion of the share distribution reform on May 11, 2006, the share rate of the China South Industry Automobile Co., Ltd. reduced from 52.47% to 45.55%.

IV The information about Directors, Supervisors and Senior management

1. During the reporting period, the shares of Company held by the directors, supervisors and senior management changed as follows:

Name	Before change(share)	After change(share)	reason ofchange
Yin Jiayu	5,040	6,653	distrubuted shares
Zhao Luchuan	5,040	6,653	distrubuted shares
Wang Chongsheng	5,040	6,653	distrubuted share
Zhou Xiaying	6,606	8,720	distrubuted shares
Peng Minggeng	5,040	6,652	distrubuted shares
Total	26,766	35,331	

2. Recruitment or dismissal of directors, supervisors and senior management during the reporting period

During the reporting period, BOD and Supervisory Committee of the Company have voted members for the next term. The members of the fourth BOD of the Company are Mr.Yin Jiayu, Mr.Xu Liuping, Mr.Zhang Baolin, Mr.Deng Tengjinag, Mr.Wang Tingwei, Mr.Deng Zhiyou, Mr.Wang Chongsheng, Mr.Zhou Wenchao, Mr.Ma Jun,and Mr.Cui Yunjiang. Independent directors are Mr. Guo Konghui, Mr.Xia Donglin, Mr.Gao Zhikai, Mr.Wen Zongyu,and Mr.Liu Wei. The members of the fourth Supervisory Committee are Mr.Shi Yubao, Ms.Cui Xiaomei, Ms.Cao Dongping,and Ms.Xiong Huilin. Employee supervisors are Mr.Zhu Zhiping, Mr.Hua Zhanbiao, Ms.Fu Xiangyu.

The first conference of the fourth BOD of the Company voted Mr.Yin Jiayu as Chairman of the Board, Mr. Xu Liuping as Vice Chairman of the Board,Mr.Zhang Baolin was engaged as General Manager, Mr.Cui Yunjiang ,Mr.Ying Zhanwang,Mr.Zhu Huarong, Mr.Huang Zhongqiang, Mr.Jia Tingyue and Mr.Zou Yi were engaged as Senior Deputy General Manager, Mr.Ren Qiang, Mr.Song Jia and Mr.Luo Minggang were engaged as Deputy General Manager, Mr.Cui Yunjiang and Ms.Li Jun were engaged as the Secretary of BOD.

The first conference of the fourth Supervisory Committee voted Mr.Shi Yubao as the Chairman of Supervisory Committee.

V. Discussion and analysis of management

1. General operation status of the Company in the reporting period

1.1 Main business scope of the company

The Company was mainly engaged in the development, manufacturing and sales of mini cars and vans, business cars and sedans including Changan Star mini-car series, Changan mini-van, Changan Suzuki's Alto, Lingyang and swift sedans, Changan Ford Mazda's Fiesta, Mondeo, focus, and Volvo sedan, Jiangling Control Company Landwind MPV, and the manufacture and sales of various types of Jiangling brand engines.

2. The operation condition of the Company during the reporting period.

In the first half of 2006, the automobile industry in our country kept the rise status, the more severe industry competition of market of automobile enterprise, the speed of development tendency of self-innovation brand automobile enterprise is fast, the Company enclosed firmly three guide of target, question and tendency, according to the rules of disciplinarian, creativity and operation, carried out the series work of innovation and improvement, put into effect, drove the steadily development of Company's operation.

In the first half of 2006, the Company manufactured 293,082 vehicles, with a year-on-year increase of 5.63%, and sold 287,514 vehicles, with a year-on-year increase 15.76% (Changan Ford Mazda calculated these on the basis of 50% of its production and sale volume). Of the total, 149,564 mini cars were sold with a year-on-year increase 5.78%, 43,267 mini vans were sold with a year-on-year increase 0.71%, and 91,566 sedans were sold, with a year-on-year increase 43.05%. In the first half year of 2006, the Company realized the sale income RMB12,575,038,740 Yuan with a year-on-year increase 31.88%, realized net profit RMB 435,297,880 Yuan with a year-on-year increase 48.17%

The production and sale volumes of the Company for the first half of 2006 and 2005 are as follows:

Product name	January to June of 2006		January to June of 2005	
	Production Volume	Sale Volume	Production Volume	Sale Volume
Mini-Cars	152,830	149,564	165,872	141,392
Mini-Vans	42,735	43,267	49,733	42,960

Sedans	94,312	91,566	61,865	64,012
SUV	3,205	3,117		
Total	293,082	287,514	277,470	248,364

Notes:1. During the reporting period, the statistic of Changan Ford Mazada was based on the 50% of its production and sales volume and the calculation caliber is the same with that of the consolidated financial statements.

2.SUV is the statistic of production and sale volume of landwind from April to June of Jiangling Holding Company.

Chart of the industry or main products that accounted for over10% of the Company's sales revenues and main operating income during the reporting period.

Unit:(RMB)ten thousand Yuan

Industry/Product	Product sales revenue		Product sales cost		profit ratio(%)	
	sum	Increase/Decrease than last year	sum	Increase/Decrease than last year	percentage	Increase/Decrease than last year
Automobile manufacture	1,257,504	31.88%	1,009,414	34.49%	16.09%	-7.53%
Main business product						
mini-car	541,676	-0.67%	455,152	7.26%	12.34%	-32.53%
sedan	640,289	74.04%	493,937	67.56%	19.22%	20.28%

The profit margin of main business greatly decreased on a year-on-year basis due to the impact of minicar price reduction in the second half of last year

Notes for the significant changes in profit components, main business or its structure and profit in the main business.

During the reporting period, since the sales volume of the Changan Ford's sedan has a year-and -year increase of 162.82%, its sales revenue has accounted for 29.58% sales revenue of the Company, increased from 17.29% of 2005 first half year, its net profits has accounted for 80.28% net profits of the Company was increased .

Analysis of Operating result and financial conditions

Item	Jan. to June of 2006	Jan. to June of 2005	Increase/ decrease
main operating revenue	12,575,039	9,535,510	31.88%
main operating profit	2,023,721	1,658,872	21.99%
period expense	1,780,344	1,368,584	30.09%

operating profit	401,972	380,911	5.53%
Profit before tax	507,208	424,628	19.45%
Net profit	332,216	293,351	13.25%
Net cash flow in operating activities	95,474	599,604	-84.08%
Net increase in Cash and Cash equivalent	-59,896	-505,091	-88.14%

1. 31.88% year-on-year increase in main operating revenue was due to 2,071,110 thousand Yuan increase of Changan Ford Mazada Automobile, 728,380 thousand Yuan increase of Changan Suzuki, 281,910 thousand Yuan increase of Jiangling Holding(Jiangling Holding was not included the consolidated statements in the same period of last year), 705,840 thousand Yuan increase of HebeiChangan.

2. 21.99% year-on –year increase in main operating profit was due to the profit increase of Changan Ford Mazada Automobile Co.Ltd.

3.30.09% year-on-year increase in period expense was mainly due to the operating expenses increase of Changan Ford Mazada and administrative expense and operating expense increase of Jiangling Holding.

4.Significant year-on-year increase in total profit and net profit was due to the increase in total profit and net profit of Changan Ford Mazda along with the yield increase 176,650 thousand Yuan of Jiangling Auto after Jiangling Holding was included in the consolidated statements.

5. 84.08% year-on-year decrease in net cash flow in operating activities was , mainly due to notes payable from parent Company payment at term increased by 715,680 thousand Yuan compared with the same period of last year and 73,920 thousand Yuan of 2005 society insurance supplement payment of parent Company, 170,000 thousand Yuan VAT & consuming tax supplement payment increase of Changan Ford Mazada compared with the same period of last year.

6. 88.14% year-on-year increase in cash and cash equivalent was mainly due to 500,000 thousand Yuan of short bond issued by Parent Company and loan increase of 231,780 thousand Yuan

Problems, difficulties and solutions during the operation

The main problems and difficulties faced by the Company during the operation

1.Competition became more severe in sales price

2. Price of the raw materials of steel and so on increased, which brought much pressure to the vehicle manufactures and parts suppliers.

3. Competitors developed rapidly, more products, more series platform structure adjustment bring challenges in all aspects.

Main solutions by the Company

2.1. investigate markets in details, catch the chance of market,build the rapid market feedback system ,classify the market segments.

2.2 implement Cost Storm Movement further, Integrate and utilize the supplier resources in all fields to build the informationized purchase platform, to strengthen the cost control in all steps of the manufacture and operation.

2.3.Positively carry out the plan "Business Leader", strive to make the profit ability of the Company, growth ability and innovation ability can be rapidly upgraded, every operation target can reach the advanced demestic level, ensure to be a Market Leader, Product Leader, Cost Leader, System Leader and Culture Leader.

3. Investment by the company during the reporting period

3.1 No usage information on raised money is available for the reporting period

3.2 Usage information on non raised money during the reporting period was as follows;(RMB:ten thousand)

Ser.No	Investment project	Invested money in	Status	Anticipated profit
1	Technical innovation	8,550	In progress	Included in the total profit of the Company
2	Technical innovation	1,736	In progress	
3	Technical center	1,776	In progress	
4	ERP project	414	In progress	
5	Others	225	In progress	
Total		12,701		

5.The sale volumn and net profits of Changan Ford Mazada with Company's 50% equity interests have a big year-on-year increase. It is estimated that net profits of the Company from Jan.-Sep. of 2006 will be 50% year-on-year increase.

VI Important Matters

1. Corporate Governance

The Company has been strictly complying with the relevant law and regulations, including the Company Law, the Securities Law, the Regulations for Listed Companies of Shenzhen Stock Exchange Markets(May,2006,revised), and continuously improving the corporate governance structure of the Company, adopting modern best practices and standardizing the management and operations of the Company.The Company is generally in compliance with the Corporate Governance Regulations for Listed Companies.

2.2005 profit distribution implementation results and 2006 interim profit distribution plan

2.1 2005 profit distribution implementation results

In the 2005 Shareholders' General Meeting held on May15,2006, the 2005 profit distribution plan was determined that the total 1,620,849,200 shares of the Company at the end of 2005 will be taken as the basis and dividend will be distributed to all shareholders at RMB0.6 Yuan per ten shares(tax included). The share registration date of A-share distribution was July,11,2006, the ex-dividend date was July.12,2006. The last business date for B-share was July,11,2005, the ex-dividend date was July,12,2005, and the shares registration date was July 14,2005.

2.2 2006 interim profit distribution plan

There is neither distribution plan nor any shares addition transferred from reserve.

3. During the reporting period, there were no significant litigations and arbitrations

4. The Company did not have significant assets acquisition, sales and restructuring.

5. Significant related party transactions

5.1 Implementation results for the related party transaction for daily operation

During the reporting period, the corresponding information of related parties, transaction content, pricing basis and transaction price related to daily operation are all executed as stated in the draft plan proposed in the 2005 Shareholder's General Meeting(For detail, see Bulletin published by China Securities, Securities Times and Hongkong Commercial Daily on April,13,2006), at the end of the reporting period, purchase from related parties amounted to

1,453,450 thousand, and sales to related parties amounted to 634,4000 thousand, and the comprehensive service plan amounted to 95,930 thousand, namely 44.30%、41.56 %、46.91 % to the total 2006 anticipated amount respectively. Related party transaction content has no significant changes compared with anticipation.

5.2, During the reporting period, significant related party transactions have been reported in the notes "Related party relationship and transactions" in the financial statement.

6. Significant Contracts and their Implementation Results

6.1 During the reporting period, the Company had no with other companies, nor did other companies have trusteeship or putting out to contract with the Company. The information that the Company leased assets of other companies or other companies leased the assets from the Company is as follows:

For the need of operation, the Company leases an office building with total area of 4,560 square meters and the monthly rental is RMB40 per square meter. Other floor spaces cover 34,355 square meters with a monthly rental of 35 per square meter. The Company leases 621,157.3 square-meter land of CAC with an annual rental of RMB15 per square meter. CAC leases all houses of the fifth, eighth, ninth and tenth floor of the Company's Science and Technology Building, with an area of 9,056 square meters and a monthly rental RMB40 per square meter.

6.2 Significant Guarantees

To support the development of the dealers, to make better utilization of the financial tools provided by bank, to expand the channels of collecting funds of the dealers, to strengthen the abilities of the dealers, to promote the sales of the company products, the company has signed "Automobile Sale Financial Service Net Agreement" with China Guangda Bank and Zhongxin Bank, and China Guangda Bank and Zhongxin Bank will confer certain comprehensive credit amount to the company, and special credits for the company dealer to accept a bill. To promote the sale of the product of Nanjing Changan and Hebei Changan, the company entrusts Hebei Changan and Nanjing Changan to use part of the amount, and for Guangda Bank: Hebei Changan RMB 80,000,000 yuan, Nanjing Changan RMB 20,000,000 yuan; Zhongxin Bank: Hebei Changan RMB120,000,000 yuan, Nanjing Changan RMB 80,000,000 yuan. The dealers of Hebei Changan and Nanjing Changan utilize the rule of

accepting a bank bill in the above mentioned agreements to purchase all the types of automobiles of Hebei Changan and Nanjing Changan, and when the bank bill has been expired, the dealers of Hebei Changan or Nanjing Changan can't give enough money, the selling period can be prolonged for 3 months; If the dealers of Hebei Changan or Nanjing Changan haven't sold out the vehicles in stock yet at the end of the prolonging period, the company will purchase the vehicles at the agreed retrieved price and put the purchase funds into the appointed account of Guangda Bank of China and Zhongxin Bank in time. Hebei Changan and Nanjing Changan promises that they will effect the same payment to the Company within 3 days when the Company undertakes the retrieving purchase obligations according to the above authorization, and they will handle the subsequent matters related to such purchase.

Hebei Changan and Nanjing Changan haven't used the amount till the deadline of the report.

6.3. There is no entrustment of cash management occurred in the reporting period or one, which occurred in the previous years and last in the reporting period.

7、Promises

7.1 On February 9, 2006, China South Industries Group Corp, the Company's ultimate controller, made commitment in <Report of Chongqing Changan Acquisition>: the transfer of non-circulated shares should be operated in company with the share merger reform of Chongqing Changan Automobile Co., Ltd. The promise should submit the formal scheme of the share merger reform to Stock Exchange through Sponsor 90 days after the publication of the report, and entrust Board of The Director to organize meetings of shareholders.

The reform of the decentralization of the shareholding rights of the company has been finished before May 11th, 2006.

7.2 The promises of China South Industry Automobile Co.Ltd., the share-controlling shareholder of the company, for the reform of the decentralization of the shareholding rights.

7.2.1 . Comply with laws, rules and regulations, and perform legal duty of commitment.

7.2.2 Since the non-circulated shares are entitled to be circulated, can't deal with or transfer it within 24 months. At the expiration of 24 months, the shareholders of non-circulated shares can sell the shares in exchange in amount of no more than 5% of total within 12 month, and no more than 10% of total within 24 months.

7.2.3 . After the reform of non-tradable shares, perform the scheme of incentive share awards for the management according to government regulation.

8、2006 semi-annual financial reports of the company haven't been audited, and the certified accountant office has no changes within the report period。

9、Other important items

9.1. During the reporting period, nor did the Company, the Board and its directors receive any audit and investigation, disciplinary punishment, public criticism nor public censure from China Securities Regulatory Commission, and from the stock exchange.; the directors of the company、 the correlated administrative staff haven't received any forced judicature measures and so on.

9.2 According to the automobile restructuring project of China South Group, the actual holding stockholder of Changan Automobile Co. Ltd.--China South Group transfer the state-owned corporation stock 850,399,200 of Changn Automobile Co. Ltd. to China South Industrial Automobile Co. Ltd as the partial investment. On March 30th, 2006, the stock of Changan Group is transferred to China South Industrial Automobile Co. Ltd.

9.3 Within the report period, the company has performed the reform of the decentralization of the share rights according to the correlated regulations of the company. Passed by the supervision and management committees of the state-owned assets of the state council and the shareholder conference regarding the reform of the decentralization of the share rights of the company, and the shareholders of non liquid shares make price management on the shareholders of the liquid shares for the circulating rights of their non liquid shares, and the shareholders of the liquid shares are given 3.2 shares for each 10 shares, and the shareholders of the non liquid shares will give 112,144,000 shares in total to the shareholders of the liquid shares. The reform of the decentralization the modification of the shares is register on May 10th, 2006, the date is May 11th, 2006 when the shareholders of the circulating shares acquire the relative equivalent share to their account and when the

relative equivalent share come into the market& exchanges. After presenting shares Changan Group's total share, the net asset per share and the income per share equally have no change. After completion of the share distribution reform on May 11, 2006, the share rate of the China South Industry Automobile Co., Ltd. reduced from 52.47% to 45.55%.

9.4 Within the report period, the structure of the share rights of Changan Ford has some changes: Fore Automobile Company has tranfered its 15% share rights of Changan Ford Automobile Co.Ltd. to Mazda Automobile Zhushi Huishe, and transferred its 10% share rights to Ford Asia-pacific Automobile Holding Co.Ltd..After the change of the structure of the share rights, the company still holds 50% share rights of Changan Ford Mazda Automobile Co.Ltd.. The name of Changan Ford Automobile Co.Ltd.is modified to Changan Ford Mazda Automobile Co.Ltd..

9.5 According to the correlated requirements of the government of Chongqing on the reform and rebuilding of the south-west negotiable securities, and the“Agreement on The Trusteeship of Share rights” signed between the company and Chongqing Yufu Assets Operation and Management Co.Limited. a state-owned company, entrust the share rights of the south-west negotiable securities owned by the company to Chongqing Yufu Assets Operation and Management Co.Limited..

9.6 .Other Information Index of Announcement

Allthe announcements were published on“*China Securities, Securities Daily* and *Hong Kong Business*”, Website for information disclosure of the Company: <http://www.cninfo.com.cn>

9.6.1 The announcement of the abnormal fluctuation of the shares was published on Jan. 10th, 2006, and the stock code is 2006-01.

9.6.2 The announcement of the board of the directors and that of the resolution of the 20th meeting of the 3rd board of directors, including appointing Mr.Zhang Baolin to the general manager of the company, and the stock code are 2006-02、 2006-03.

9.6.3 the purchase report of Chongqing Changan Automobile Co.Ltd. and the report of the board of directors of Chongqing Changan Automobile Co.Ltd. regarding the purchase issues of the China South Industry Group Company for all the shareholders, were published

on Feb.9th, 2006.

9.6.4 The announcement of the resolution of the 21st meeting of the 3rd board of directors, including electing Mr. Xu Liuping as the deputy chairman of the board of directors was published on Feb.18th, 2006, and the stock code is 2006-04.

9.6.5 The documents regarding the directions of the reform of the decentralization of the share rights of the company were published on Mar.20th, 2006, and the announcement number are 2006-05、2006-06、2006-07。

9.6.6 The announcement allowing to issue short-term bonds was published on Mar. 21st, 2006, and the stock code is 2006-08.

9.6.7 On March 30th, 2006, the announcement is published about the discussion & communication of the relative stock share allocation reform project and about the adjustment of stock share allocation& reform; the complementary notice is published about the shareholder meeting-hold on stock allocation reform and Share A market. The stock code is as follows: 2006-09、2006-10.

9.6.8 The announcement of the board of directors, including the changes of the telephone numbers of the secretaries of the board of directors was published on Mar. 31st, 2006, and the stock code is 2006-11.

9.6.9 The announcement of the situation of the transfer of the state-owned shares, including the share rights of the company of Changan Group being transferred to China South Industry Automobile Co.Ltd. was published on Apr.1st, 2006, and the stock code is 2006-12.

9.6.10 The announcement of important issues, including the the changes in the structure of the share rights of Changan Ford was published on Apr.5th, 2006, and the stock code is 2006-13.

9.6.11 The report summary of 2005、the announcement of the resolution of the 22nd meeting of the 3rd board of directors were published on Apr.15th, 2006, and the stock code are 2006-14、2006-15、2006-16、2006-17、2006-18、2006-19。

9.6.12 The announcement of the 1st point-out of the shareholder conference regarding

the reform of the decentralization of the share rights was published on Apr.19th, 2006, and the stock code is 2006-20.

9.6.13 The announcement regarding the reform proposals of the decentralization of the share rights being passed by the supervision and management department of the state owned assets, and the announcement of the 2nd point-out of holding shareholder conference regarding the reform of the decentralization of the share rights were published on Apr.20th, 2006, and the stock code are 2006-21、2006-22.

9.6.14 The announcement of the voting results of the correlated shareholder conference of the reform of the decentralization of the share rights was published on Apr.26th, 2006, and the stock code is 2006-23.

9.6.15 The report of the 1st quarter of 2006 was published on Apr. 29th, 2006, and the stock code is 2006-24.

9.6.16 The announcement of the enforcement of the reform proposals of the decentralization of the share rights was published on May 9th, 2006, and the stock code is 2006-25.

9.6.17 The announcement of the modifications of the share abbreviations and the announcement of the changes of the share structure were published on May 11th, 2006, and the stock code are 2006-26、2006-27。

9.6.18 The announcement of the resolution of the shareholder conference of 2005、the announcement of the resolution of the 1st meeting of the 4th board of directors、the announcement of the resolution of the 1st meeting of the 4th board of supervisors were published on May 16th, 2006, and the stock code are 2006-28、2006-29、2006-30。

9.6.19 The announcement of the clarification was published on May 23rd, 2006 and the stock code is 2006-31。

9.6.20 The announcement of the resolution of the 1st provisional shareholder conference of 2006 was published on Jun.27th, 2006 and the stock code is 2006-35。。

VII Financial Report (not audited)

Financial Statement

Chongqing Changan Automobile Co.Ltd.

As at Jun.30th, 2006

CONSOLIDATED BALANCE SHEET

All amounts in Renminbi (“RMB”) thousand

	Remarks	30 June	31Dec.
		2006	2005
Assets			
Non-current assets			
Property, plant and equipment		7,125,331	6,047,177
Land use rights		502,445	505,766
Intangible Assets		104,677	104,677
Investments in associates		1,345,077	1,350,472
Available-for-sale investments		99,589	99,589
Other non-current assets	5	21,772	141,268
Deferred tax assets		201,205	201,205
		9,400,096	8,450,154
Current assets			
Inventories	6	4,245,303	3,883,668
Receivables and prepayments	7	3,394,516	2,673,338
Pledged deposits		77,069	86,650
Cash and cash equivalents		3,649,261	3,699,577
		11,366,149	10,343,233
Total Assets		20,766,245	18,793,387

CHONGQING CHANGAN AUTOMOBILE CO., LTD.
CONSOLIDATED BALANCE SHEET (CONTINUED)

AS AT 30 June 2006

All amounts in Renminbi (“RMB”) thousand

	Notes	As at 30 June	As at 31 December
		2006	2005
EQUITY			
Capital and reserves attributable to equity holders of the Company			
Share capital		1,620,849	1,620,849
Share premium		1,743,168	1,743,168
Other reserves		1,554,130	1,554,130
Retained earnings		1,756,506	1,424,739
Proposed final dividends		97,251	97,251
		6,771,904	6440137
Minority interests		1,774,792	1,657,997
Total equity		8,546,696	8098134
LIABILITIES			
Non-current liabilities			
Borrowings	8	1,100,838	964,039
Deferred income tax liabilities		71,853	71,853
Retirement benefit obligations		21,200	22,690
Deferred income		353,787	361,774
Long-term payables		17,343	17,343
		1,565,021	1,437,699
Current liabilities			
Trade and other payables	9	8,867,767	7,840,699
Current income tax liabilities		55,690	-9,593
Borrowings	8	1,305,653	1,078,937
Provisions for other liabilities and charges	10	425,418	347,511
		10,654,528	9,257,554
Total liabilities		12,219,549	10,695,253
Total equity and liabilities		20,766,245	18,793,387

CHONGQING CHANGAN AUTOMOBILE CO., LTD.
CONSOLIDATED INCOME STATEMENT

All amounts in Renminbi ("RMB") thousands, except for the specific indication

Renminbi thousands (“RMB”)	Notes	<u>Jan.-Jun.2006</u>	<u>Jan.-Jun.2005</u>
sales	11	12,575,039	9,535,510
Sales tax and surcharge		(457,182)	(371,418)
		-----	-----
Net sales		12,117,857	9,164,092
Cost of goods sold		(10,094,136)	(7,505,220)
		-----	-----
Gross profit		2,023,721	1,658,872
Selling and marketing costs		(1,064,899)	(856,864)
Administrative expenses		(644,030)	(555,437)
Other income		87,180	134,340
		-----	-----
Operating profit		401,972	380,911
Finance costs	12	(71,415)	43,717
Share of results of associates		176,651	0
Profit before income tax		507,208	424,628
Income tax expense		(72,696)	(77,106)
Profit for the year		434,512	347,522
		-----	-----
Attributable to:			
Equity holders of the Company		332,216	293,351
Minority interests		102,296	54,171
Earnings per share for profit attributable to the equity holders of the Company during the year (RMB per share)	13	0.20	0.18
		=====	=====

CHONGQING CHANGAN AUTOMOBILE CO., LTD.
CONSOLIDATED CASH FLOW STATEMENT
As at 30 June 2006

All amounts in Renminbi ("RMB") thousands	Period ended 30 June	
	2006	2005
Cash flows from operating activities		
Cash generated from operations	12,305,409	9,176,340
Returned Income tax	20,790	31,939
Cash generated from other operating activities	168,212	293,169
Sub-total of cash inflow	12,494,411	9,501,448
Cash paid relating to purchase of goods and services	9,177,055	6,310,521
Cash paid relating to the employees	416,890	293,555
Tax paid	1,392,627	803,827
Cash paid relating to other operating activities	1,412,365	1,493,941
Subtotal of cash outflow	12,398,937	8,901,844
Net cash generated from operating activities	95,474	599,604
Cashflow from Investing Activities		
Investment income from securities investment		
Cash generated from the received investment proceeds	12,625	4,585
Proceeds from disposal of property, plant and equipment	1,948	743
Cash generated from other investing activities	266	5,819
Sub-total of cash inflow	14,839	11,147
Purchase of property, plant and equipment	1,131,670	523,688
Purchase of held-to-maturity investment	215,406	89,298
Cash paid relating to other investing activities	31,320	2,295
Sub-total of cash outflow	1,378,396	615,281
cash generated from investing activities	(1,363,557)	(604,134)
Cashflow from Financing Activities		
Cash generated from investment	712,843	6,550
Proceeds from borrowings	836,299	604,516
Cash generated from other financing activities	246,587	17
Sub-total of cash inflow	1,795,729	611,083
Repayment of borrowings	521,177	555,465
Dividends paid to shareholders	63,894	551,940
Cash paid relating to other financing activities	3,749	4,307
Sub-total of cash outflow	588,820	1,111,712
Net cash generated from financing activities	1,206,909	(500,629)
Fluctuation of exchange rate impacted on the cash and cash equivalent	1278	68
Net Increase in cash and cash equivalents	(59,896)	(505,091)
Cash and cash equivalents at beginning of year	3,726,331	4,475,419
Cash and cash equivalents at end of year	3,786,227	3,970,328

Notes to the financial statements

1 General information

Chongqing Changan Automobile Co. Ltd. (hereafter referred to as “the Company”) was established in the People’s Republic of China (hereafter referred to as the “PRC”) under the Company Law of the PRC on 31 October 1996. The Legal Representative’s Operating License issued by Chongqing Industrial and Commercial Administrative Bureau is Yu-Jing No. 28546236-3.

The Company and its subsidiaries and jointly controlled entity (hereafter collectively referred to as “the Group”) are principally engaged in the manufacturing and selling of automobiles and components.

The address of the Company’s registered office is No.260 Jianxin East Road, Jiangbei District, Chongqing, P.R.C. The Company has its primary listing in the Shenzhen Stock Exchange.

于2006年8月21日，These consolidated financial statements have been approved for issue by the Board of Directors on 21 August 2006.

2 Summary of significant accounting policies

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

A Basis of preparation

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (“IFRS”), issued by the International Accounting Standards Board (“IASB”).

B Group accounting

(1) Subsidiaries

◦ Subsidiaries are all entities (including special purpose entities) over which the Group has the power to govern the financial and operating policies generally accompanying a shareholding of more than one half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group controls another entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Group and are no longer consolidated from the date that control ceases.

The purchase method of accounting is used to account for the acquisition of subsidiaries by the Group. The cost of an acquisition is measured as the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the acquisition. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date, irrespective of the extent of any minority interest. The excess of the cost of acquisition over the fair value of the Group’s share of the identifiable net assets acquired is recorded as goodwill. If the cost of acquisition is less than the fair value of the net assets of the subsidiary acquired, the difference is recognised directly in the income statement.

Inter-company transactions, balances and unrealised gains on transactions between group companies are eliminated. Unrealised losses are also eliminated but considered an impairment indicator of the asset transferred. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

(2) Transactions with minority interests

The Group applies a policy of treating transactions with minority interests as transactions with parties external to the Group. Disposals to minority interests result in gains and losses for the Group that are recorded in the income statement. Purchases from minority interests result in goodwill, being the difference between any consideration paid and the relevant share acquired of the carrying value of net assets of the subsidiary.

(3) Jointly controlled entities

A jointly controlled entity is a joint venture in respect of which a contractual arrangement is established between the participating venturers and whereby the Group together with the other venturers undertake an economic activity which is subject to joint control and none of the venturers has unilateral control over the economic entity.

The Group’s interests in jointly controlled entities are accounted for by proportionate consolidation.

The Group combines its share of the jointly controlled entity's individual income and expenses, assets and liabilities and cash flows on a line-by-line basis with similar items in the Group's financial statements. The Group recognises the portion of gains or losses on the sale of assets by the Group to the jointly controlled entity that is attributable to the other venturers. The Group does not recognise its share of profits or losses from the jointly controlled entity that results from the purchase of assets by the Group from the jointly controlled entity until it resells the assets to an independent party. However, if a loss on the transaction provides evidence of a reduction in the net realisable value of current assets or an impairment loss, the loss is recognised immediately.

(4) Associates

Associates are all entities over which the Group has significant influence but not control, generally accompanying a shareholding of between 20% and 50% of the voting rights. Investments in associates are accounted for using the equity method of accounting and are initially recognised at cost. The Group's investment in associates includes goodwill (net of any accumulated impairment loss) identified on acquisition.

The Group's share of its associates' post-acquisition profits or losses 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 carrying amount of the investment. When the Group's share of losses in an associate equals or exceeds its interest in the associate, including any other unsecured receivables, the Group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the associate.

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. Accounting policies of associates have been changed where necessary to ensure consistency with the policies adopted by the Group

C Foreign currency translation

(1) Measurement currency

Items included in the financial statements of each entity in the Group are measured using the currency that best reflects the economic substance of the underlying events and circumstances relevant to that entity ("the 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 functional currency using the exchange rates prevailing on the first day of the month in which the transactions take place. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement.

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

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

D Property, plant and equipment

Property, plant and equipment are stated at historical cost 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 capitalised as property, plant and equipment.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as

appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. All other repairs and maintenance are charged to the income statement during the financial period in which they are incurred.

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

Buildings & Plants	20-40 years
Equipment & Machinery	10-20 years
Motor Vehicles	5-8 years
Others	5 years

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date.

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

Gains and losses on disposals are determined by comparing proceeds with carrying amount. These are included in the income statement.

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

Borrowing costs incurred for the construction of qualifying assets are capitalised during the period that is required to complete and prepare the asset for its intended use. Other borrowing costs are expensed.

E Land use rights

Land use rights are stated at cost less accumulated amortisation and impairment losses. Cost represents consideration paid for the rights to use the land on which various plants and buildings are situated for periods varying from 30 to 50 years. Amortisation of the land use rights is calculated on a straight-line basis over the period of the land use rights.

F 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 identifiable assets of the acquired subsidiary/jointly controlled entity/associate at the date of acquisition. Goodwill on acquisitions of subsidiaries and jointly controlled entity is included in 'intangible assets'. Goodwill on acquisitions of associates is included in 'investments in associates'. Separately recognised goodwill is tested annually for impairment and carried at cost less accumulated impairment losses. Impairment losses on goodwill are not reversed. Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold. Goodwill is allocated to cash-generating units for the purpose of impairment testing. The allocation is made to those cash-generating units or groups of cash-generating units that are expected to benefit from the business combination in which the goodwill arose .

(2) Proprietary technology

Proprietary technology is stated at cost less amortisation. Amortisation is calculated on a straight-line basis over the expected beneficial period starting from the date of use (3 to 6 years).

(3) Trademarks

Trademarks are shown at historical cost. Trademarks have a finite useful life and are carried at cost less accumulated amortisation. Amortisation is calculated using the straight-line method to allocate the cost of trademarks and licences over their estimated useful lives (15 years).

(4) Computer software

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

G Impairment of non-financial assets

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

H Financial assets

The Group classifies its financial assets in the following categories: financial assets at fair value through profit or loss, loans and receivables, held-to maturity financial assets and available-for-sale financial assets. The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of its financial assets at initial recognition and re-evaluates this designation at every reporting date.

(1) Financial assets at fair value through profit or loss

This category has two sub-categories: financial assets held for trading, and those designated at fair value through profit or loss at inception. A financial asset is classified in this category if acquired principally for the purpose of selling in the short term or if so designated by management. Derivatives are also categorised as held for trading unless they are designated as hedges. Assets in this category are classified as current assets if they are either held for trading or are expected to be realised within 12 months of the balance sheet date.

(2) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for maturities greater than 12 months after the balance sheet date. These are classified as non-current assets. Loans and receivables are classified as 'trade and other receivables' in the balance sheet (Note 13).

(3) Held-to-maturity financial assets

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturities that the Group's management has the positive intention and ability to hold to maturity.

(4) Available-for-sale financial assets

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

Regular purchases and sales of investments are recognised on trade-date – the date on which the Group commits to purchase or sell the asset. Investments are initially recognised at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss. Financial assets carried at fair value through profit or loss are initially recognised at fair value and transaction costs are

expensed in the income statement. Investments are derecognised when the rights to receive cash flows from the investments have expired or have been transferred and the Group has transferred substantially all risks and rewards of ownership. Available-for-sale financial assets and financial assets at fair value through profit or loss are subsequently carried at fair value. Loans and receivables and held-to-maturity investments are carried at amortised cost using the effective interest method.

Gains or losses arising from changes in the fair value of the 'financial assets at fair value through profit or loss' category, including interest and dividend income, are presented in the income statement in the period in which they arise.

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

When securities classified as available-for-sale are sold or impaired, the accumulated fair value adjustments recognised in equity are included in the income statement as 'gains and losses from investment securities'. Interest on available-for-sale securities calculated using the effective interest method is recognised in the income statement. Dividends on available-for-sale equity instruments are recognised in the income statement when the Group's right to receive payments is established.

The fair values of quoted investments are based on current bid prices. If the market for a financial asset is not active (and for unlisted securities), the Group establishes fair value by using valuation techniques. These include the use of recent arm's length transactions, reference to other instruments that are substantially the same, discounted cash flow analysis, and option pricing models making maximum use of market inputs and relying as little as possible on entity-specific inputs.

The Group assesses at each balance sheet date whether there is objective evidence that a financial asset or a group of financial assets is impaired. In the case of equity securities classified as available for sale, a significant or prolonged decline in the fair value of the security below its cost is considered as an indicator that the securities are impaired. If any such evidence exists for available-for-sale financial assets, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in profit or loss – is removed from equity and recognised in the income statement. Impairment losses recognised in the income statement on equity instruments are not reversed through the income statement. Impairment testing of trade receivables is described in Note 2 L.

I Derivative financial instruments and hedging activities

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

J Deferred assets

Deferred assets are stated at cost less accumulated amortisation. Amortisation is calculated on a straight-line basis over the useful life of the deferred assets.

K Inventories

Inventories are stated at the lower of cost or net realisable value. Cost is determined using 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 applicable variable costs of completion and selling expenses.

L Trade receivables

Trade receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment. A provision for impairment of trade receivables is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of receivables. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation, and default or delinquency in payments are considered indicators that the trade receivable is impaired. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the effective interest rate. The amount of the provision is recognised in the income statement within "administrative expense".

M Cash and cash equivalents

Cash and cash equivalents includes cash in hand, deposits held at call with banks, other short-term highly liquid investments with original maturities of three months or less, and bank overdrafts. Bank overdrafts are included within borrowings in current liabilities on the balance sheet.

N Share capital

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

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

O Borrowings

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

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

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 consolidated financial statements. However, the deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the balance sheet date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

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

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

Q Employee benefits

(1) Pension obligations

The Group contributes on a monthly basis to various defined contribution retirement schemes managed by the PRC government. The contributions to the schemes are charged to the income statement as and when incurred. The Group's obligations are determined at a certain percentage of the salaries of the employees.

In addition, the Group provides supplementary pension subsidies to certain qualified employees. Such pension obligation is estimated based on the present value of the estimated future cash outflows discounted using discount rate to be set by referring to bond yield at the valuation date, consistent with

the estimated terms of the liability.

(2) Termination benefits

Termination benefits are payable whenever an employee's employment is terminated before the normal retirement date or whenever an employee accepts voluntary redundancy in exchange for these benefits. The Group recognises termination benefits when it is demonstrably committed to either terminating the employment of current employees according to a detailed formal plan without possibility of withdrawal or providing 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.

(3) Housing fund and other benefits

The Group's full-time employees are entitled to participate in a state-sponsored housing fund. The fund can be used by the employees for the purchase of apartment accommodation, or may be withdrawn upon their retirement. The Group is required to make annual contributions to the state-sponsored housing fund equivalent to a certain percentage of the employees' salaries. In addition, the Company provided subsidies to eligible employees for the purchase of flats and accounted for such subsidies when occurred.

In addition, the Group makes a provision at 14% of the total salary of its employee for general welfare.

(4) Profit sharing and bonus plan

The Company recognises a liability and expense for bonus plans based on a formula that takes into consideration the profit attributable to the Company's shareholders. The Group recognises a provision where contractually obliged or where there is a past practice that has created a constructive obligation.

R Provisions

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

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

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

S Revenue recognition

Revenue comprises the fair value of the consideration received or receivable for the sale of goods and services in the ordinary course of the Group's activities. Revenue is shown net of value-added tax, returns, rebates and discounts and after eliminated sales within the Group. Revenue is recognised as follows:

(1) Sales of goods

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

(2) Sales of services

Sales of services are recognised in the accounting period in which the services are rendered, by reference to completion of the specific transaction assessed on the basis of the actual service provided as a proportion of the total services to be provided.

(3) Interest income

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

(4) Rental income

Rental income is recognised on an accruals basis in accordance with the substance of the relevant agreements.

(5) Dividend income

Dividend income is recognised when the right to receive payment is established.

T Leases

(1) A group company is the lessee

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged to 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.

U Dividend distribution

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

V Research and development expenditure

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 that do not meet these criteria are recognised as an expense as incurred. Development costs previously recognised as an expense are not recognised as an asset in a subsequent period. 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.

W Government grants

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

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

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

X 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 analysis by business and geographical segments has been provided for the year.

3 Financial risk management

3.1 Financial risk factors

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

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

(1) Credit risk

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.

(2) Liquidity risk

Prudent liquidity risk management implies maintaining sufficient cash and marketable securities, the availability of funding through an adequate amount of committed credit facilities and the ability to close out market positions. Due to the dynamic nature of the underlying businesses, the Group aims to maintain flexibility in funding by keeping committed credit lines available.

(3) Cash flow and fair value interest rate risk

The Group's income and operating cash flows are substantially independent of changes in market rates.

(4) Foreign exchange risk

The Group is exposed to foreign exchange risk arising from various currency exposures, primarily with respect to the US dollar, Euro dollar and Japanese Yen. Foreign exchange risk arises from future commercial transactions, recognised assets and liabilities.

Foreign exchange risk arises when future commercial transactions or recognised assets or liabilities are denominated in a currency that is not the Group's functional currency. To manage foreign exchange risk arising from future commercial transactions and recognises assets and liabilities, the Group uses forward contracts to manage the net position in each foreign currency.

3.2 Fair values estimation

The nominal value less impairment provision of trade receivables and payables are assumed to approximate their fair values. The fair value of financial liabilities for disclosure purposes is estimated by discounting the future contractual cash flows at the current market interest rate that is available to the Group for similar financial instruments. The fair value of forward foreign exchange contracts is determined using quoted forward exchange rates at the balance sheet date.

4 Critical accounting estimates and judgements

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

(1) Depreciation and amortisation

The Group's management determines the estimated residual value, useful lives and related depreciation/amortisation charges for the property, plant and equipment and intangible assets with reference to the estimated periods that the Group intends to derive future economic benefits from the use of these assets. Management will revise the depreciation and amortisation charge where useful lives are different to previously estimated, or it will write-off or write-down technically obsolete or non-strategic assets that have been abandoned or sold.

(2) Impairment of non-financial assets

Non-financial assets are reviewed for impairment in accordance with the accounting policy stated in Note 2 G. The recoverable amount of an asset or a cash-generating unit is determined based on value-in-use calculations. The value-in-use calculation requires the entity to estimate the future cash flows expected to arise from the cash-generating unit and a suitable discount rate in order to calculate present value, which has been prepared on the basis of management's assumptions and estimates. Detailed sensitivity analyses have been performed and management is confident that the carrying amount of the relevant assets will be recovered in full.

(3) Impairment of trade and other receivables

Provision for impairment of trade and other receivables is determined based on the evaluation of collectibility of trade and other receivables. A considerable amount of judgment is required in assessing the ultimate realisation of these receivables, including the current creditworthiness, the past collection history of each customer and the current market condition.

(4) Inventories

Management estimates the net realisable value for inventory based primarily on the latest invoice prices less costs to sell or value in use. The Group carries out an inventory review on a product-by-product basis at each balance sheet date and make provision for impairment on obsolete and slow-moving items or write-off or write-down inventories to net realisable value.

(5) Provisions

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

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

5 Other non-current assets

	30 June 2006	2005
	RMB'000	RMB'000
<i>Long-term receivable</i>	16,784	136,290
<i>Long-term deferred assets</i>	4,978	4,978
	21,772	141,268

6 Inventories

	30 June 2006	2005
	RMB'000	RMB'000
Raw materials (at net realisable value)	1,138,462	1,172,633
Work in progress (at cost)	97,829	127,734
Finished goods (at net realisable value)	2,972,006	2,546,940
Consumables (at cost)	37,006	36,361
	4,245,303	3,883,668

7 Trade and other receivables

	30 June 2006	2005
	RMB'000	RMB'000
Trade receivables	1,264,424	706,620
Less : provision for impairment of trade receivables	(106,679)	(110,866)
Trade receivables – net	1,157,745	595,754
Notes receivables	1,304,266	1,414,318
Prepayments	45,810	281,630
Other receivables	888,744	384,365

Less : provision for impairment of other receivables	2,049	(2,729)
	3,394,516	2,673,338

8	Borrowings	30 June 2006 RMB'000	2005 RMB'000
	Current		
	Bank borrowings		
	-unsecured	1,176,500	952,787
	- secured	129,153	126,150
	Non-current	1,305,653	1,078,937
	Bank borrowings		
	- unsecured	227,938	121,139
	- secured	872,900	842,900
		1,100,838	964,039
	Total borrowings	2,406,491	2,042,976

The fair value of borrowings approximates their carrying values.

9	<i>Trade and other payables</i>	30 June 2006 RMB'000	2005 RMB'000
	Trade payables	4,350,266	3,288,725
	Notes payable	1,233,006	1,716,154
	Other payables	1,136,816	1,264,874
	Accrued expenses	1,080,806	700,786
	Accrued sales compensation	381,367	269,622
	Accrued payroll and welfare	13,619	93,066
	Advances from customers	671,887	507,472
		8,867,767	7,840,699

10	<i>Provisions for other liabilities and charges</i>	30 June 2006 RMB'000	2005 RMB'000
	At beginning of year	347,511	274,259
	Charged for the year	249,462	276,119
	Utilised during year	(171,555)	(202,867)
	At end of year	425,418	347,511

。 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 the incurrence of such costs.

11	Sales		
	<i>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.</i>		

12	Finance costs	30 June,2006 RMB'000	2005 RMB'000
	Interest expense on borrowings	41,263	(65,677)
	Net foreign exchange gain	25,620	33,799
	Interest expense on bank acceptance notes	1,219	(3,528)
	Bank acceptance notes discounted charges	4,159	(11,324)
	Others	(846)	(5,513)
		71,415	(52,243)

13	<i>Earnings per share</i>		
	Basic earnings per share is calculated by dividing the net profit attributable to equity holders of the Company by the weighted average number of ordinary shares in issue during the year.		

	30 June,2006 RMB'000	2005 RMB'000
Profit attributable to shareholders of the Company	332,216	199,309
Weighted average number of ordinary shares in issue (thousands)	1,620,849	1,620,849
Basic earnings per share (RMB per share)	0.20	0.12
Diluted earnings per share equals to basic earnings per share as there were no dilutive potential ordinary shares outstanding during the year 2005 and the first half of 2006.		

14 Related party transactions

1.Related parties that have control relationship

Entity	Registered Address	Principal activities	Relationship with this Company	<u>Nature</u>	Legal person
China South Industries Group Corp.(hereinafter referred to as Beijing CSIG)	Beijing	Invest,operate and manage state-owned assets;	Actual Majority equity holder	Wholly state-owned company	Xu Bin
China South Industries Automobile Co. Ltd	Beijing	manufacture and sale of automobiles, motorcycles and their engines & spare components	Parent company	Limited company	Xu Bin
Chongqing Changan Suzuki Automobile Co., Ltd.	Chongqing	Manufacture and sale of automobiles and spare parts	Subsidiary	Sino-Japanese Joint venture	Yin Jiayu
Chongqing Changan Automobile Import and Export Co., Ltd.	Chongqing	Import and export, sale of automobiles and spare parts	Subsidiary	Co, Ltd.	Wang Chongsheng
Chongqing Changan Automobile Sales Co., Ltd.	Chongqing	Sale of automobiles, subsidiary engines and spare parts	Subsidiary	Co, Ltd.	Zhang Baolin
Nanjing Changan Automobile Co., Ltd.	Nanjing	Manufacture and sale of subsidiary mini automobiles and spare parts	Subsidiary	Co, Ltd.	Xu Liuping
Sales Companies	PRC	Sale of automobiles and subsidiary spare parts	Subsidiary	Co, Ltd.	Yin Jiayu
Hebei Changan Automobile Co., Ltd.	Dingzhou	Manufacture and sale of subsidiary automobiles and spare parts	Subsidiary	Co, Ltd.	Xu Liuping
Chongqing Anfu Automobile Co., Ltd.	Chongqing	Sale of automobiles and subsidiary spare parts	Subsidiary	Co, Ltd.	Zhang Baolin
Chongqing Changan Special Automobile Co., Ltd.	Chongqing	Sale of special subsidiary automobiles and spare parts, automobile repair	Subsidiary	Co, Ltd.	Zhang Baolin
Chongqing Changan Service Co., Ltd.	Chongqing	Sale of automobiles and subsidiary spare parts	Subsidiary	Co, Ltd.	Zhang Baolin
Jiangxi Jiangling Holding Co., Ltd.	Nanchang	Investment, foreign trading	Subsidiary	Co, Ltd.	Yin Jiayu
Shantou Lufeng Automobile Sales Co., Ltd.	Shantou	Sale of automobiles and related products	Subsidiary	Co, Ltd.	Gao Xuyuan

2. The registered capital and variation of the related parties that have control relationship are as follows.

Entity	Currency	Dec.31,2005	Increase of this year	Decrease of this year	30 June,2006
China South Industries Group Corp	RMB	12,645,210,000	-	-	12,645,210,000
China South Industries Automobile Co. Ltd.	RMB	4,582,373,700	-	-	4,582,373,700
Chongqing Changan Suzuki Automobile Co., Ltd.	US dollars	70,000,000	-	-	70,000,000
Chongqing Changan Automobile Import and Export Co., Ltd.	RMB	13,756,400	-	-	13,756,400
Chongqing Changan Automobile Sales Co., Ltd.	RMB	48,500,000	-	-	48,500,000

Nanjing Changan Automobile Co., Ltd.	RMB	601,810,000	-	-	601,810,000
Hebei Changan Automobile Co., Ltd	RMB	264,690,000	-	-	264,690,000
Jiangxi Jiangling Holding Co., Ltd.	RMB	1,000,000,000	-	-	1,000,000,000
Chongqing Changan Special Automobile Co., Ltd.	RMB	5,000,000	-	-	5,000,000
Chongqing Changan Service Co., Ltd.	RMB	30,000,000	-	-	30,000,000
Chongqing Anfu Automobile Co., Ltd.	RMB	32,000,000	-	-	32,000,000
Sales Companies	RMB	141,036,400	2,500,000	-	143,536,400
Shantou Lufeng Automobile Sales Co., Ltd.	RMB	1,000,000	-	-	1,000,000

3. Shares or equity variation of related parties that have controlled relationship are as follows.

Entity	Dec.31,2005		Increase of this year		Decrease of this year		June 30,2006	
	sum	%	sum	%	sum	%	sum	%
China South Industries Automobile Co.Ltd	850,400,000	52.47			112,140,000	6.92	738,260,000	45.55

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

Related parties' name	Relationship
Chongqing Changan Jinling Vehicles Parts Co., Ltd	Subsidiary of CSIA
Chongqing Changfeng Jiquan Machinery Co., Ltd	Subsidiary of CSIA
Chongqing Changan Information Technology Co., Ltd.	Associate of the Company
Changan Ford Mazda Automobile Co., Ltd.	Jointly controlled entity of the Company
Changan Ford Mazda Engine Co., Ltd.	Jointly controlled entity of the Company
Changan Automobile Group Co. Ltd.	Subsidiary of CSIG
Chongqing Changan Automobile Parts Factory	Subsidiary of CSIG
Chongqing Changan Transportation Company	Subsidiary of CSIG
Chongqing Changan Construction Co., Ltd.	Subsidiary of CSIG
Chongqing Jiangli Machinery Factory	Subsidiary of CSIG
Chongqing Jiangchao automobile component Co., Ltd.	Subsidiary of CSIG
Chongqing Changan Minsheng Logistics Co., Ltd.	Subsidiary of CSIG
Bao Ding changan Automobile Co., Ltd.	Subsidiary of CSIG
Hebei Changan Shengli Automobile Company	Subsidiary of CSIG
Chongqing Changan Support Services Co., Ltd.	Subsidiary of CSIG
Chongqing Guohao Automobile Sales Co. Ltd.	Subsidiary of CSIG
Chongqing Automobile Air-conditioner Co., Ltd.	Subsidiary of CSIG
Chongqing Changan Real Estate Development Co., Ltd.	Subsidiary of CSIG
Chongqing Anlan Materials Co., Ltd.	Subsidiary of CSIG
Chongqing Jiangling Construction Co., Ltd.	Subsidiary of CSIG
Chengdu Wanyou Economic Technological Development Co., Ltd.	Subsidiary of CSIG
Chongqing Wanyou Economic Development Co., Ltd.	Subsidiary of CSIG
Southwest Industries Corporation	Subsidiary of CSIG
Chongqing Tsingshan Industries Co., Ltd.	Subsidiary of CSIG
South TRW Chassis Co. Ltd.	Subsidiary of CSIG
Sichuan Jianan North Automobile Axle Co., Ltd.	Subsidiary of CSIG

Chongqing Jianshe Automobile Air-conditioner Co., Ltd.	Subsidiary of CSIG
Sichuan Ningjiang Precision Industries Co., Ltd.	Subsidiary of CSIG
Chongqing Changjiang Electrics (Group) Co., Ltd.	Subsidiary of CSIG
Longchang Shanchuan Shock-absorbing Works Industries Co., Ltd.	Subsidiary of CSIG
Yunnan Xiyi Industries Co., Ltd.	Subsidiary of CSIG
Hubei Xiaogan Huazhong Automobile Light Co., Ltd.	Subsidiary of CSIG
Chongqing Yihong Engineering Plastic Products Co., Ltd.	Subsidiary of CSIG
Sichuan Huaqing Machinery Co., Ltd.	Subsidiary of CSIG
Chengdu Lingchuan Machinery Factory	Subsidiary of CSIG
Chongqing Changfeng Machinery Co., Ltd.	Subsidiary of CSIG
Sichuan Hongguang Machinery and Electrics Co., Ltd.	Subsidiary of CSIG
China Yanxing Northwest Co.	Subsidiary of CSIG
Chongqing Wanbin Material Co., Ltd.	Subsidiary of CSIG
Sichuan Jianan Industry Co., Ltd.	Subsidiary of CSIG

5. Related party transactions

(1) pricing policy

The prices of the products sold to and purchased from the related parties are made according to the consultation of both parties on the basis of market prices.

(2) purchase of components and vehicle (all the following transactions are excluding from tax)

Related parties name	From January to June of 2006	From January to June of 2005
Changan Automobile Group Co. Ltd.	22,043,374	34,997,010
Chongqing Changan Jinling Vehicles Parts Co., Ltd	318,543,667	238,400,724
Chongqing Jiangli Machinery Factory	40,733,246	45,147,004
Chongqing Wanyou Economic Development Co., Ltd.	47,942,935	47,645,793
Sichuan Jianan North Automobile Axle Co., Ltd.	55,226,909	115,833,901
Sichuan Jianan Industries Co., Ltd.	98,834,048	88,960,423
Sichuan Ningjiang Precision Industries Co., Ltd.	35,597,648	29,006,638
South TRW Chassis Co. Ltd.	76,141,247	
Chong Qing Hongyu Precision Industries Co., Ltd.		84,857,537
Hubei Xiaogan Huazhong Automobile Light Co., Ltd.	18,236,452	13,079,938
Chongqing Changjiang Electrics (Group) Co., Ltd.	33,846,727	14,126,022
Chongqing Jiangchao automobile components Co., Ltd.	8,209,972	9,342,175
Chongqing Jianshe Automobile Air-conditioner Co., Ltd.	77,453,110	48,407,224
Sichuan Hongguang Machinery and Electrics Co., Ltd.	29,902,961	36,736,470
Longchang Shanchuan Shock-absorber Industries Co., Ltd.	35,214,966	27,538,739
Chongqing Tsingshan Industries Co., Ltd.	156,646,735	226,454,238
Yunnan Xiyi Industries Co., Ltd.	13,997,724	10,537,534
Bao Ding changan Automobile Co., Ltd.	3,104,208	6,175,445
Chengdu Lingchuan Machinery Factory	64,180,595	55,470,895
Changan Ford Mazda automobile Co., Ltd.(note a)	91,864,853	62,894,439
Chongqing Automobile Air-conditioner Co., Ltd.	54,555,605	29,362,602
Chongqing Yihong Engineering Plastic Products Co., Ltd.	15,431,547	8,239,548

Sichuan Huaqing Machinery Co., Ltd.	16,140,567	10,601,435
Chongqing Changfeng Machinery Co., Ltd	3,892,684	7,026,578
Chongqing Changfeng Jiquan Machinery Co., Ltd	4,545,175	

Note a: The transaction with Changan Ford Mazada shown above is after elimination of the Company's proportionate interests in it.

(3) Sale of automobiles, accessories and materials (all the following transactions are excluding from tax)

Related parties' name	From January to June of 2006	From January to June of 2005
Changan Automobile Group Co. Ltd and its subsidiaries	4,605,239	19,272,186
Chengdu Wanyou Economic Technological Development Co., Ltd.	301,821,857	213,962,093
Chongqing Wanyou Economic Development Co., Ltd.	149,123,751	201,292,626
Chengdu Lingchuan Machinery Factory	32,038,323	28,966,446
Chongqing Changan Jinling Vehicles Parts Co., Ltd	52,594,705	48,585,575
China Yanxing Northwest Co.	343,932	-
Changan Ford Mazda Automobile Co., Ltd.(note a)	565,640	5,846,078
Chongqing Jiangchao automobile components Co., Ltd.	2,419,018	3,111,051
Chongqing Jiangli Machinery Factory	1,177,881	2,405,542
Sichuan Hongguang Machinery and Electrics Co., Ltd.	17,756,841	18,813,937
Chongqing Guohao Automobile Sales Co. Ltd.	4,049,838	8,741,504
Chongqing Tsingshan Industries Co., Ltd.	563,145	609,207
South TRW Chassis Co. Ltd.	437,217	778,102
Sichuan Jianan North Automobile Axle Co., Ltd.	935,974	773,793
Chongqing Jianshe Automobile Air-conditioner Co., Ltd.	40,514	-
Sichuan Ningjiang Precision Industries Co., Ltd.	565,910	420,934
Longchang Shanchuan Shock-absorber Industries Co., Ltd.	477,562	361,738
Chongqing Wanbin Material Co., Ltd.	63,344,585	86,078,740
Chongqing Anlan Materials Co., Ltd.	1,540,571	18,354,327

Note a: The transaction with Changan Ford Mazada shown above is after elimination of the Company's proportionate interests in it.

(4) Purchase of goods

Related parties name	From Jan. to Jun. Of 2006	From Jan. to Jun. Of 2005
Changan Automobile (Group) Co. Ltd	86,192	439,070
Chongqing Changan Construction Co.Ltd.	125,769,927	102,246,964
Chongqing Changan Information Technology Co.Ltd.	4,606,464	10,516,147
Chongqing Jiangling Construction Co.Ltd	698,922	

(5) Purchase of service

Related parties' name	Contents	From January to June of 2006	From January to June of 2005
Changan Automobile Group Co. Ltd.	Trademark fee	6,359,940	7,375,800
Changan Automobile Group Co. Ltd.	Lease of land use right	7,898,720	3,038,640
Changan Automobile Group Co. Ltd.	Building rental fee	10,253,932	8,308,950
Changan Automobile Group Co. Ltd.	Water,electricity and	40,157,002	46,251,038

	gas fee		
Changan Automobile Group Co. Ltd.	Welfare	18,371,320	16,705,352
Changan Automobile Group Co. Ltd.	Telephone charges	894,600	704,212
Changan Automobile Group Co. Ltd.	--Education fee	2,934,261	3,214,223
Changan Automobile Group Co. Ltd.	--Security and fire fighting fee	5,061,340	4,114,536
Changan Automobile Group Co. Ltd.	--Labours' union fee	2,789,210	2,456,041
Changan Automobile Group Co. Ltd.	others	1,205,496	2,891,636

(6)other transactions

Related parties' name	Contents	From January to June of 2006	From January to June of 2005
Chongqing Changan Minsheng Logistics Co., Ltd.	Freight charge	147,290,039	234,107,285
Chongqing Changan Transportation Co., Ltd.	Freight charge	1,409,480	3,998,032
Chongqing Changan Information Technology Co., Ltd.	Information service fee	15,003,662	8,024,152
Changan Automobile Group Co. Ltd.	Loan interest expense		1,361,500
Changan Automobile Group Co. Ltd.	Building rental fee	1,086,720	2,173,440
Changan Automobile Group Co. Ltd.	Sale of properties, plant and equipment	203,728	
Chongqing Changan Jinling Vehicles Parts Co., Ltd	properties, plant and equipment	2,040,567	
Changan Ford Mazda Engine Co., Ltd.(note a)	Human resources support	1,200,000	-

Note a: The transaction with Changan Ford Mazda shown above is after elimination of the Company's proportionate interests in it.

(7)Balances with related parties

(a)Receivables from related parties:

Related parties' name	30 June 2006	31 December 2005
Changan Automobile (Group) Co.,Ltd and its subsidiaries	1,177,357	6,364,059
ChongQing Changan utility Co.,Ltd		567,315
Chongqing Guohao Automobile Sales Co.Ltd	1,169,794	6,717,854
Changan Ford Mazda Automobile Co.,Ltd. (Note a)		2,469,705
Changan Ford Mazda Engine Co., Ltd. (Note a)		9,878.674
Chongqing Changan Jinling Vehicle Parts Co.,Ltd.	3,892,094	
Chengdu Wanyou Economic Technological Development Co.Ltd.	31,964,868	51,838,555
Chongqing Changan Real Estate Development Co.,Ltd.		18,771,815
Chongqing Wanyou Economic Development Co.Ltd.	26,133,350	33,512,228
	64,337,463	130,120,205

Note a: Receivables from Changan Ford Mazada shown above are after elimination of the Company's proportionate interests in them.

(b)Notes receivable (commercial acceptance draft)

Related parties' name	30 June 2006	31 December 2005
Chengdu Wanyou Economic Technological Development Co.,Ltd.	62,916,000	32,030,000
Chongqing Wanyou Economic Development Co.,Ltd.	91,579,585	11,807,730
	154,495,585	43,837,730

(c) pre-payment to related parties

Related parties' name	30 June 2006	31 December 2005
Changan Ford Mazda Automobile Co.,Ltd. (Note a)	61,006	2,880,135
Chongqing Changan Minsheng Logistics Co.,Ltd.	2,500,000	
	2,561,006	2,880,135

Note a: Pre-payment to Changan Ford Mazada shown above are after elimination of the Company's proportionate interests in them.

(d) Payables to related parties:

Related parties' name	30 June 2006	31 December 2005
Chongqing Wanyou Economic Development Co.Ltd	14,852,354	13,938,133
Bao Ding changan Automobile Co., Ltd.	401,622	1,260,660
Chongqing Changan Automobile Pars Factory	77,149	42,581
Longchang Shanchuan Shock-absorber Industries Co.Ltd.	17,038,821	18,403,465
Chongqing Jianshe Automobile Air-conditioner Co., Ltd.	40,870,664	24,079,191
Chongqing Changan Jinling Vehicles Parts Co., Ltd	9,746,805	32,067,090
Chongqing Changjiang Electrics (Group) Co., Ltd.	9,453,980	6,103,449
Changan Automobile (Group) Co.Ltd.	2,672,059	23,433,272
Chongqing Changan Information Technology Co., Ltd.	36,040	18,200,123
South TRW Chassis Co.Ltd.	44,302,216	34,410,699
Changan Ford Mazda Automobile Co.Ltd. (Note a)	728,047	3,143,547
Chongqing Tsingshan Industries Co., Ltd	26,280,362	31,438,433
Sichuan Jianan North Automobile Axle Co., Ltd.	28,922,947	2,908,653
Sichuan Jianan Industries Co.Ltd.	46,682,768	24,121,464
Sichuan Ningjiang Precision Industries Co., Ltd.	12,336,494	9,240,561
Chongqing Automobile Air-conditioner Co., Ltd.	35,739,611	29,128,169
Chongqing Changan Minsheng Logistics Co., Ltd.	35,631,657	237,635,130
Yunnan Xiyi Industries Co., Ltd.	8,300,922	838,974
Chongqing Jiangli Machinery Factory	24,158,728	27,209,840
Hubei Xiaogan Huazhong Automobile Light Co., Ltd.	8,375,005	10,858,295
Chongqing Jiangchao Engine Industry Co., Ltd.	4,577,973	2,647,557
Chongqing Yihong Engineering Plastic Products Co., Ltd.	8,679,420	6,968,540
Sichuan Huaqing Machinery Co., Ltd.	4,053,741	5,144,550
Sichuan Hongguang Machinery and Electrics Co., Ltd.	16,609,795	10,976,990
Chongqing Changfeng Machinery Co., Ltd.	1,031,280	1,661,301
Chengdu Lingchuan Machinery Factory	14,856,114	20,870,856
Chongqing Changan Construction Co.Ltd.	13,847,748	23,987,522
Chongqing Changfeng Jiquan Machinery Co., Ltd	145,949	681,412
Chongqing Jiangling Construction Co.Ltd.	4,855,685	1,242,631
	435,265,956	588,232,389

Note a: Payables to Changan Ford Mazada shown above are after elimination of the Company's proportionate interests in them.

(e) Advances from customers

Related parties' name	30 June 2006	31 December 2005
Changan Automobile (Group) Co.,Ltd.	6,088,209	1,509,938
China Yanxing Northwest Co.	-	111,900
Chongqing Wanyou Economic Development Co.,Ltd.	5,137,483	-
Chongqing Changan Automobile Components & Parts Factory	30,528	-
	11,256,220	1,621,838

(f) Loan guarantee

As at 30 June 2006, Changan Automobile (Group) Co.,Ltd. has provided a guarantee for the Company to obtain bank borrowings of RMB 872,900,000 (31 December 2005: RMB842,900,000).

15 Other matters

By the day 30 June 2006, there are no other important matters in the Company during the reporting period.

16 Events after the balance sheet date

The following events occurred subsequent to 30 June 2006:

(1) Until 22 July 2006, the Company has fulfilled additional capital of US\$87,500,000 in Changan Ford Mazada. Other investment partners of Changan Ford Mazada also injected additional capital in Changan Ford Mazada according to their percentages of equity interests in Changan Ford Mazada.

(2) In the 2005 Shareholders' General Meeting held on May 15, 2006, the 2005 profit distribution plan was determined that the total 1,620,849,200 shares of the Company at the end of 2005 will be taken as the basis and dividend will be distributed to all shareholders at RMB 0.6 Yuan per ten shares (tax included), cash dividend amounting to RMB 97,250,952 Yuan (tax included). By 14 July 2006, the above mentioned cash dividend has been distributed.

(3) According to the resolution of the Board of Directors of Changan Ford Mazda Automobile Co.Ltd, Changan Ford Mazda Automobile Co.Ltd. will distribute to JV partners total cash dividend RMB 840,000,000 Yuan, among which the Company will receive RMB

420,000,000 Yuan cash dividend according to its equity ratio in JV registration capital on the dividend distribution date. By 24 July 2006, the Company has received such cash dividend.

17 Reconciliation of the net profit presented under the PRC accounting standards and IFRS (RMB: thousand)

	Net assets attributable to the Company's equity holders	Net profit attributable to the Company's equity holders
	RMB'000	RMB'000
As reported in the accounts of the Group under PRC accounting regulations	7,169,565	435,298
Reversal of revaluation made in 1995	(14,167)	429
Deferred income tax	178,729	-
Government grants relating to assets	(239,794)	3,866
Government grants relating to income	-	3,000
Tax credit arising from purchase of domestically manufactured machinery and equipment	(35,906)	1,918
Reversal of amortisation of goodwill	9,421	-
Pre-operating expense of Changan Ford Mazda and new branch of Changan Ford	(217,769)	(112,295)
Provision for impairment of goodwill	(75,442)	-
Difference in share yield of associates in conformity with IFRS	(3,918)	-
Others	1,185	-
As restated in conformity with IFRS	6,771,904	332,216

VIII Documents for inspection

1. Semiannual report with signatures of Chairman of the Board of Directors;
2. Financial statements with signatures and stamps of the legal representative, the head of the accounting and the head of accounting department;
3. All the documents of the Company which has been disclosed in the reporting period in the newspaper designated by China Securities Regulatory Commission;
4. The Company Articles of Association;
5. Semiannual reports published in other securities markets;
6. Other relevant materials.

Chairman of the Board of Directors: Mr. Yin Jiaxu General Manager: Mr. Zhang Baolin

Chongqing Changan Automobile Company Limited

21 August, 2006