

## 2006 First Quarter Report of Chongqing Changan Automobile Company Limited

### §1 Important Notes

1.1 The Board of Directors of Chongqing Changan Automobile Co., Ltd. (hereinafter referred to as “the Company”) and the directors guarantee that the information contained in 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.

1.2 There are no directors of Board who are unable to agree the truthfulness, accuracy, completeness or disagreement on the content of the semiannual financial report.

1.3 List of the directors absent

Directors absent	Reasons for the absence	Entrusted personnels
Guo Xuewu	On Business	None
Wang Tingwei	On Business	None

1.4 The financial statements of this quarter have not been audited.

1.5 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.

1.6 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.

### 2 General information to the Company

2.1 General information to the Company

Abbreviated name of the stock	Changan Automobile、Changan B
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Stock Code	000625、200625	
Place of listing	Shenzhen Stock Exchange	
	Secretaries of the Board	Securities matters Representative
Name	Cui Yunjiang、Li Jun	
Contract Address	No.260, Jian Xin East Road, Jiang Bei District, Chongqing	
Tel.	023-67594009	
Fax.	023-67866055	
Email Address	cazqc@changan.com.cn	

## 2.2 Accounting Data

### 2.2.1 Key accounting and financial data

Unit: RMB thousand

	At the end of reporting period	At the end of the prior year	Changes from reporting period-end to the prior year-end (%)
<b>Total assets</b>	20,048,075	18,793,387	6.68%
<b>Shareholder's equity (after minority interests)</b>	6,626,555	6,440,137	2.89%
Net assets per share	4.09	3.97	3.02%
Adjusted net assets per share	3.75	3.67	2.18%

	Reporting period	Beginning of year to end of reporting period	Changes of reporting period on the same period last year (%)
<b>Net cash flows from operating activities</b>	-292,322	-292,322	-135.34%
Earnings per share (RMB)	0.12	0.12	0.00%
Return on net assets	2.81%	2.81%	-0.09%

### 2.2.2 Reconciliation of the net profits presented under the PRC accounting standards and International Financial Reporting Standards ("IFRS")

Applicable Not Applicable

Unit: RMB thousand

	PRC accounting standards	IFRS	
Net profit	204,537	186,418	
Difference Reconciliation	<b>As reported under PRC accounting standards:</b>	Net Assets	Net profit
		6,936,254	204,537
	Adjustment under IFRS		
	1. Reversal of revaluation surpluses from long-term assets relating to revaluation made in 1995	-14,382	215
	2. Deferred tax assets	178,729	-
	3. Government grants relating to assets	-241,727	1,933
	4. Tax credit arising from purchase of domestically manufactured machinery and equipment	-36,865	959
	5. Reversal of amortisation of goodwill	9,421	-
	6. Re-operating expense of Changan Ford Mazda and new branch of Changan Ford	-126,700	-21,226
	7. Provision for impairment of goodwill	-75,442	-
8. Difference in share of result of associates	-3,918	-	
9. Others	1,185	-	
	<b>As restated in conformity with IFRS:</b>	6,626,555	186,418

## 2.2.3 Financial report

### 2.2.3.1

#### Chongqing Changan Automobile Co., Ltd.

##### Consolidated income statement

(all amounts in RMB thousands)	Jan~Mar 2006	Jan~Mar 2005
Sales	6,645,428	4,548,306
Sales tax and surcharge	-259,228	-180,042
Net sales	6,386,200	4,368,264
Cost of sales	-5,404,252	-3,577,600
Gross profit	981,948	790,664
Distribution costs	-495,412	-394,397
Administrative expenses	-324,675	-228,359
Other operating income and expenses	44,324	79,032
Profit from operations	206,185	246,940
Finance income – net	-26,394	23,597
Share of result of associates	90,615	0

Profit before tax	270,406	270,537
Taxation	-37,647	-53,482
Net profit before minority interests	232,759	217,055
Minority interests	46,341	15,257
Net profit	186,418	201,798
Basic earnings per share (RMB per share)	0.12	0.12

### 2.2.3.2

## CHONGQING CHANGAN AUTOMOBILE CO., LTD.

### CONSOLIDATED BALANCE SHEET

AS AT 31 March 2006

(all amounts in RMB thousands)	31-Mar	31-Dec
	2006	2005
<b>ASSETS</b>		
<b>Non-current assets</b>		
Property, plant and equipment	6,577,573	6,047,177
Land use rights	482,049	505,766
Intangible assets	104,677	104,677
Investments in associates	1,110,349	1,350,472
Available-for-sale investments	99,589	99,589
Other non-current assets	74,556	141,268
Deferred tax assets	201,205	201,205
	8,649,998	8,450,154
<b>Current assets</b>		
Inventories	3,618,139	3,883,668
Receivables and prepayments	4,260,535	2,673,668
Other financial assets at fair value through profit or loss	0	0
Held-to-maturity investments	0	0
Pledged deposits	60,000	86,650
Cash and cash equivalents	3,459,403	3,699,577
	11,398,077	10,343,233
<b>Total assets</b>	<b>20,048,075</b>	<b>18,793,387</b>

<b>EQUITY</b>		
Ordinary shares	1,620,849	1,620,849
Share premium	1,743,168	1,743,168
Other reserves	1,554,130	1,554,130
Retained earnings	1,611,157	1,424,739
Proposal final dividends	97,251	97,251
	6,626,555	6,440,137
<b>Minority interests</b>	1,715,269	1,657,997
<b>Total equity</b>	8,341,824	8,098,134
<b>LIABILITIES</b>		
<b>Non-current liabilities</b>		
Borrowings	993,162	964,039
Deferred income tax liabilities	71,853	71,853
Retirement benefit obligations	21,716	22,690
Deferred income	358,667	361,774
Other non-current liabilities	17,343	17,343
	1,462,741	1,437,699
<b>Current liabilities</b>		
Trade and other payables	8,487,615	7,840,699
Current income tax liabilities	199,587	(9,593)
Borrowings	1,164,268	1,078,937
Provisions for other liabilities and charges	392,040	347,511
	10,243,510	9,257,554
<b>Total liabilities</b>	11,706,251	10,695,253
<b>Total equity and liabilities</b>	20,048,075	18,793,387

2.2.3.3

**CHONGQING CHANGAN AUTOMOBILE CO., LTD.**  
**CONSOLIDATED CASH FLOW STATEMENT**

(all amounts in RMB thousands)	Period ended 31 March
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	2006	2005
<b>Cashflow from Operating Activities</b>		
Cash generated from operations	5,353,985	4,573,888
Tax Received	9,814	25,167
Cash generated from other operating activities	63,343	90,395
Subtotal of cash inflow	<u>5,427,142</u>	<u>4,689,450</u>
Cash paid relating to purchase of goods and services	4,130,940	2,643,498
Cash paid relating to the employees	266,446	136,824
Tax paid	666,800	379,022
Cash paid relating to other operating activities	655,278	702,926
Subtotal of cash outflow	<u>5,719,464</u>	<u>3,862,270</u>
Net cash generated from operating activities	<u>-292,322</u>	<u>827,180</u>
<b>Cashflow from Investing Activities</b>		
Investment income from securities investment	12,625	2,268
Proceeds from disposal of property, plant and equipment	1,022	583
Cash generated from other investing activities	1,042	3,581
<b>Subtotal of cash inflow</b>	<u>14,689</u>	<u>6,432</u>
Purchase of property, plant and equipment	546,721	279,430
Cash paid relating to investment	3,761	-
Cash paid relating to other investing activities	30,663	50
Subtotal of cash outflow	<u>581,145</u>	<u>279,480</u>
Net cash generated from investing activities	<u>-566,456</u>	<u>-273,048</u>
<b>Cashflow from Financing Activities</b>		
Cash generated from investment	501,500	5,000
Proceeds from borrowings	409,180	267,530
Cash generated from other financing activities	5,587	-
Subtotal of cash inflow	<u>916,267</u>	<u>272,530</u>
Repayment of borrowings	293,680	194,738
Dividends paid to shareholders	30,200	19,222
Cash paid relating to other financing activities	-	-
Subtotal of cash outflow	<u>323,880</u>	<u>213,960</u>
Net cash generated from financing activities	<u>592,387</u>	<u>58,570</u>
<b>Fluctuation of exchange rate impacted on the cash and cash equivalent</b>	-432	-12
<b>Net Increase in cash and cash equivalents</b>	-266,823	612,690

<b>Cash and cash equivalents at beginning of year</b>	<u>3,699,577</u>	<u>4,475,419</u>
<b>Cash and cash equivalents at end of year</b>	<u>3,432,754</u>	<u>5,088,109</u>

2.3 Total number of shareholders at the end of the reporting period and the top ten circulation-share shareholders

Total shareholders at the end of reporting period	49,542	
The top ten circulation-share shareholders		
Name	Shares as of March 31, 2006	Type of share
CMBSA RE FTIF TEMPLETON ASIAN GRW FD GTI 5496	46,509,717.00	B share
NATIONAL SOCIAL INSURANCE FUND PORTFOLIO 108	23,001,019.00	A share
BOSHI VALUE ADDED SECURITIES INVESTMENT	17,676,799.00	A share
EMERGING MARKETS GROWTH FUND INC FUND	16,448,057.00	B share
BBH BOS S/A FIDELITY FD - CHINA FOCUS FD	15,300,000.00	B share
TEMPLETON EMERGING MARKETS INVESTMENT TRUST	11,837,000.00	B share
NATIONAL SOCIAL INSURANCE FUND PORTFOLIO 102	11,799,913.00	A share
DIT-RCM ASIAN SELECTIONS FUND PLC	10,455,834.00	B share
FID INSTITUTIONAL STH EAST ASIA FD GTI 23954	10,100,000.00	B share
VALUE PARTNERS CLASSIC FUND	8,452,760.00	B share

### **§3 Discussion and analysis of Management**

#### **3.1 Brief analysis on operating results during the reporting period**

In First quarter of 2006, Facing to the challenge of auto market and competitors, managers analyzed the opportunities, risks and industry, and took a series of management measures to solve the problems, which resulted to steady increase of production and sales of company. But there is one thing must to be pay attention to that is the increase of cars' operation led to increase of proportion of cars' sales to the sales, it increased from 42.47% in 2005 to 48.67% in First quarter of 2006. From Jan to Mar of 2006, the company produced auto in amount of 152043, auto production volume had a year-on-year increase of 16.90%, it sold auto in amount of 157836, auto sale volume had a year-on-year increase of 27.68%, specially cars' sale volume of Changan Ford and Changan Suzuki had respective increase of 205.54% and 56.85%. The company realized sales in amount of 6645428 thousand yuan and net profit in

amount of 186418 thousand yuan, they had the year-on-year and respective increase of 46.11% and -7.62%.

The production and sale volumes of the Company for the First Quarter of 2006 and 2005 are as follows:

Product Name	January to March of 2006		January to March of 2005	
	Production Volume	Sale Volume	Production Volume	Sale Volume
Mini-cars	70,092	73,438	83,565	75,792
Mini-vans	34,517	34,495	20,146	20,254
Sedans	47,434	49,903	26,348	27,572
Total	152,043	157,836	130,059	123,618

Notes: 1. During the reporting period, the statistic of Changan Ford 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.

3.1.1 Core business by industry or product occupying 10% or more of turnover or gross profit

Applicable      Not Applicable

Unit: RMB ten thousand

Product	Turnover	Cost of goods sold	Gross Margin
Automobile	664,543.00	540,714.00	18.63%
Including: Related Party Transaction	43,781.00	35,623.00	18.63%
Main business by product			
Mini-vehicles	309,939.00	257,820.00	16.82%
Cars	323,437.00	267,112.00	17.41%
Including: Related Party Transaction	24,877.00	20,618.00	17.12%

3.1.2 Seasonal or periodical features of operating activities

Applicable      Not Applicable

3.1.3 Profit structure in the reporting period (causes and explanations of major changes of core business profit, other business profit, period expense, investment income, subsidy income and net income outside of core business as percentage of total profit compared



with those of prior reporting period)

Applicable Not Applicable

3.1.4 Causes and explanations of major changes on core business and its structure compared with those of prior reporting period

Applicable Not Applicable

During the reporting period, because the cars' sale volume of Changan Ford and Changan Suzuki had the year-on-year and respective increase of 205.54% and 56.85%, which led to increase of proportion of cars' sales to the sales, it has increases from 42.47% to 48.67%.

3.1.5 Causes and explanations of major changes on profitability (margin) of core business compared with that of prior reporting period

Applicable Not Applicable

3.2 Analysis of major events, their impacts and resolutions

Applicable Not Applicable

Non-operational funds being impropriated and progress of its being paid off

Applicable Not Applicable

3.3 Changes of accounting policies, accounting estimates and consolidated scopes, and causes and explanations of major accounting errors

Applicable Not Applicable

3.4 Explanations of the board of directors and the supervisory committee to abnormal opinions from accounting firms

Applicable Not Applicable

3.5 Warning and explanations to the situation that accumulated net profit during the period from year beginning to the end of next reporting period may be negative or, compared with the same period last year, may have a substantial change

Applicable Not Applicable

3.6 Rolling adjustment on the disclosed annual business plan or budget

Applicable Not Applicable

3.7 The special commitment made by the original non-circulated shareholders during the reform of share respective treatment and its implementation.

Applicable Not Applicable

Name of shareholders	Special commitment	Implement of promise	Implement of special commitment
China South Industries Group Corp.	<ol style="list-style-type: none"> <li>1. Comply with laws, rules and regulations, and perform legal duty of commitment.</li> <li>2. Since 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 with 12 months, and no more than 10% of total within 24 months.</li> <li>3. After the reform of non-traded shares, perform the scheme of incentive share awards for the management according to government regulation.</li> </ol>	So far, the conditions of implement of special commitment aren't mature.	After the reform of non-traded shared of our company, non-circulated shareholder will imply its obligations according to the special commitment