Chongqing Changan Automobile Company Limited

2005 Annual Report

I. Important notes and contents:

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

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

Directors Guo Xuewu was absent;.

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 annual report.

Content

II. General Introduction of the Company

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

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

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

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

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

   Post code: 400023

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

   Post code: 400023

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

   Email Address of the Company: cazqc@changan.com.cn

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

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

   Annual Report preparation: Office of the Board of Directors

6. Place of listing: Shenzhen Stock Exchange

Abbreviated name of the stock:	Changan Automobile	Changan B
Stock Code:	000625	200625

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

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

   Date of change in registration: September 27, 2004

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

   Business license number: *Yu Zi* 5000001805570

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

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

   Domestic CPA firm: PricewaterhouseCoopers Zhongtian CPA

   Address: 11th Floor PricewaterhouseCoopers Center 202 Hu Bin Road Shanghai, 200021, PRC

International CPA firm: PricewaterhouseCoopers Zhongtian CPA

Address: 11th Floor PricewaterhouseCoopers Center 202 Hu Bin Road Shanghai, 200021, PRC

III. Extracts of Accounting and Operating Data

The Company's accounting data for the current year (RMB thousand):

Profit before tax	240,913
Net profit	199,309
Profit from major business lines	3,022,160
Other operating income	215,615
Operating profit	203,990
Net cash in-flow from operating activities	1,361,892
Net increase in cash and cash equivalents	-445,458

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

		Net assets attributable to the Company's equity holders RMB'000	Net profit attributable to the Company's equity holders RMB'000
	As reported in the accounts of the Group under PRC accounting regulations	6,731,717	236,750
1.	Staff and workers' bonus and welfare fund charged to income statement	-	(15,380)
2.	Reversal of revaluation made in 1995	(14,597)	859
3.	Deferred income tax	178,729	88,175
4.	Government grants relating to assets	(243,660)	11,881
5	Government grants relating to income	-	45,671
6.	Tax credit arising from purchase of domestically manufactured machinery and equipment	(37,824)	3,836
7.	Reversal of amortisation of goodwill	9,421	9,421
8.	Pre-operating expense of Changan Ford Mazda and new branch of Changan Ford	(105,474)	(105,474)
9.	Provision for impairment of goodwill	(75,442)	(75,442)
10.	Liabilities not to be settled	-	2,857
11.	Difference in share of result of associates	(3,918)	(3,918)
12.	Others	1,185	73
	As restated in conformity with IFRS	6,440,137	199,309

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

	2005	2004	2003
Sales (RMB '000)	19,168,550	18,526,610	14,358,768
Net profit (RMB '000)	199,309	1,197,215	1,435,616
Total assets (RMB '000)	18,793,387	14,848,265	10,984,325
Shareholders' equity (RMB '000)	6,440,137	6,759,500	4,810,372
Earnings per share (yuan/share)	0.12	0.84	1.17
Net assets per share (yuan/share)	3.97	4.17	3.92
Adjusted net assets per share(yuan/share)	3.67	4.15	3.74
Net cash flow from operating activities per share(yuan/share)	0.84	0.90	1.31
Return on net assets (%)	3.09	17.71	29.84

Note: The Earnings per share, Net assets per share, Adjusted net assets per share, and Net cash flow from operating activities per share in 2005 and 2004 are based upon the share capital of 1,620,849.2 thousand shares, and in 2003 based upon the share capital of 1,226,666 thousand shares.

IV. Changes in Shareholdings and Information on Shareholders

1. Changes in shareholdings (Unit: share):

	Balance before current change		Addition and Deduction					Balance aft
	Quantity	Rate	Additional issurue	Bonus share	Transfer from accumulatied fund	others	subtotal	Quantity
I.Non-circulated shares								
1. Promoter shares	850,399,200	52.47%						850,399,200
Including: State-owned legal person shares	850,399,200 -	52.47%						850,399,200
Domestic legal person shares	-							-
Foreign legal person shares	-							-
Others	-							-
2. Legal entity shares raised	-							-
3. Employee shares	26,766							26,766
4. Preference shares and others	-							-
Sub-total of non-circulated shares	850,425,966	52.47%						850,425,966
II. Circulated shares								
1. Domestic listed RMB shares	350,423,234	21.62%						350,423,234
2. Domestic listed foreign shares	420,000,000	25.91%						420,000,000
3. Overseas listed foreign shares	-							-
4. Others	-							-
Subtotal circulated shares	770,423,234	47.53%						770,423,234
III. Total shares	1,620,849,200	100.00%						1,620,849,200

Note: Employee shares refer to shares held by the Directors and Supervisors.

2. Issue and Listing of Shares

(1) Share issue in the three years up to the year of the report:

As approved by China Securities Regulatory Commission (Document No. [2004]131), the Company issued an additional 148,850,000 common shares of RMB 1 each at RMB 7.39 per share on August 26, 2004. The listing date of the additional shares is 26 September 2004.

(2) In the reporting period, there is no change in total shares and shareholding structures.

3. Information on the shareholders

(1) The largest ten share holders:

Total amount of shareholders	Totaled 61,915, of which 48,959 were A share shareholders and 12,956 were B share shareholders.				
Name of shareholders	Shareholders	% of total shares	Shares held at the year-end	Non-circulated shares held at the year-end	Pledged/ Frozen shares
CHANGAN AUTOMOBILE GROUP COMPANY (“CAC”)	State-owned	52.47%	850,399,200	850,399,200	354,333,000
CMBLSA RE FTIF TEMPLETON ASIAN GRW FD GTI 5496	Foreign	2.41%	38,991,758	0	Unknown
National social security fund 108	A share share-holder	1.14%	18,503,714	0	Unknown
EMERGING MARKETS GROWTH FUND INC	Foreign	1.01%	16,448,057	0	Unknown
BOSHI VALUE ADDED SECURITIES INVESTMENT FUND	A share share-holder	0.94%	15,228,959	0	Unknown
MORGANSTANLEY INT'L (CHINA)-FIRM	Foreign	0.75%	12,087,132	0	Unknown
TEMPLETON EMERGING MARKETS INVESTMENT TRUST	Foreign	0.73%	11,837,000	0	Unknown
VALUE PARTNERS CLASSIC FUND	Foreign	0.68%	10,977,610	0	Unknown
BBH BOS S/A FIDELITY FD - CHINA FOCUS FD	Foreign	0.62%	10,000,000	0	Unknown
National social security fund 102	A share share-holder	0.52%	8,400,000	0	Unknown

Note:

a. Stated-owned shares 354,333,000 held by CAC was released from being pledged on Jan 25th, 2006.

b. According to the Recombination scheme of China South Industries Group in the aspects of automobile industry, State-owned shares 850,399,200 hold by Changan Automobile Group Company will be transferred into China South Automobile Co.Ltd as its contribution. The shares held by CAC was transferred into China South Automobile Co.Ltd on Mar 30th,2006. Then China South Automobile Co.Ltd held the Company’s State owned shares 850,399,200, 52.47% of total shares, and became the controlling shareholder of the Company, while Changan Automobile Group Company didn’t hold the Company’s share any longer.

(2)The controlling shareholder

Controlling shareholder: China South Automobile Co.Ltd

Legal representative: Xu Bin

Date of establishment: Dec 26th, 2005

Registered capital: RMB 4,582,373,700

Business scope and major products: Automobile, autocycle, Engine of automobile and autocycle, designing, development, manufacture, and sales of spare parts; sales of Optical products, electronic and photoelectron products, 夜视 equipment, information and communication equipment; technical development, technical transfer, technical consultation, technical training, and other technical service relative with the operation mentioned above; imports and exports; merge and acquisition and consultation about reconstruction of capital.

(3) The ultimate parent of the controlling shareholder

The ultimate parent of CAC: China South Industries Group Corp.

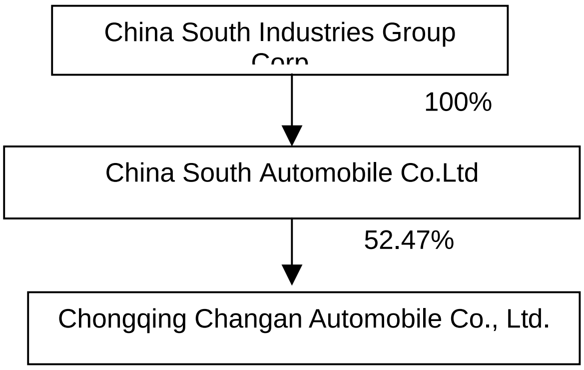
Legal representative: Xu Bin

Date of establishment: June 29, 1999

Registered capital: RMB 12,645,210,000

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

(4) Relationship among the Company and its controlling shareholders:



(5) The ten largest circulated shareholders

The company did not know whether there was relationship among the large ten circulated shareholders , and nor knew whether they were the parties who agreed to act alike as stipulated in *Administrative Measures on Information Disclosure Concerning Changes in Shareholdings of Listed Companies*.

Name of Shareholders	Shares at the year-end	Type of Shares
CMBLSA RE FTIF TEMPLETON ASIAN GRW FD GTI 5496	38,991,758	B share
National social security fund 108	18,503,714	A share
EMERGING MARKETS GROWTH FUND INC	16,448,057	B share
BOSHI VALUE ADDED SECURITIES INVESTMENT FUND	15,228,959	A share
MORGANSTANLEY INT'L (CHINA)-FIRM	12,087,132	B share
TEMPLETON EMERGING MARKETS INVESTMENT TRUST	11,837,000	B share
VALUE PARTNERS CLASSIC FUND	10,977,610	B share
BBH BOS S/A FIDELITY FD - CHINA FOCUS FD	10,000,000	B share
National social security fund 102	8,400,000	A share
DIT-RCM ASIAN SELECTIONS FUND PLC	7,590,879	B share
Explanation on the relationship and the action alike of above shareholders	Among the largest ten share holders, Changan Automobile Group Company had no relationship with other share holders, and nor was the party who agreed to act alike as stipulated in Administrative Measures on Information Disclosure Concerning Changes in Shareholdings of Listed Companies. The company did not know whether there was relationship among the large ten circulated shareholders , and nor knew whether they were the parties who agreed to act alike as stipulated in Administrative Measures on Information Disclosure Concerning Changes in Shareholdings of Listed Companies.	

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

1. Information on directors, supervisors and senior management

Name	Position	Gender	Age	Term of office	Shares held		Reasons for change
					At beginning of year	At end of year	
Yin Jiaxu	Chairman	M	49	2003.05-2006.05	5,040	5,040	
Xu Liuping	Deputy Chairman,	M	41	2003.05-2006.05	0	0	
Zhang Baolin	Director, General manager	M	43	2003.05-2006.05	0	0	
Deng Tengjiang	Director	M	49	2003.05-2006.05	0	0	
Wang Tingwei	Director	M	34	2005.05-2006.05	0	0	
Zhao Luchuan	Director	M	52	2003.05-2006.01	5,040	5,040	
Wang Chongsheng	Director	M	47	2003.05-2006.05	5,040	5,040	
Guo Xuewu	Director	M	49	2003.05-2006.05	0	0	
Ma Jun	Director	M	46	2003.05-2006.05	0	0	
Cui Yunjiang	Director, Deputy General Manager, Board Secretary	M	42	2003.05-2006.05	0	0	
Guo Konghui	Independent Director	M	70	2003.05-2006.05	0	0	
Xia Donglin	Independent Director	M	44	2003.05-2006.05	0	0	
Gao Zhikai	Independent Director	M	43	2003.05-2006.05	0	0	
Wen Zongyu	Independent Director	M	42	2003.05-2006.05	0	0	
Liu Wei	Independent Director	M	41	2003.05-2006.05			
Shi Yubao	Organizer of the Board of Supervisors	M	52	2003.05-2006.05	0	0	
Peng Minggeng	Supervisor	M	55	2003.05-2006.05	5,040	5,040	
Zhou Xiaying	Supervisor	F	56	2003.05-2006.05	6,606	6,606	
Cao Dongping	Supervisor	F	52	2003.05-2006.05	0	0	
Xiong Huilin	Supervisor	F	46	2003.05-2006.05	0	0	
Zhu Zhiping	Supervisor	M	43	2003.05-2006.05	0	0	
Hua Dubiao	Supervisor	M	38	2003.05-2006.05	0	0	
Fu Xiangyu	Supervisor	F	50	2003.05-2006.05	0	0	
Zhu Huarong	Senior Deputy General Manager	M	40	2003.04-2006.04	0	0	
Huang Zhongqiang	Senior deputy general manager	M	37	2003.04-2006.04	0	0	
Jia Tingyue	Deputy general manager	M	42	2003.04-2006.04	0	0	
Zou Yi	Deputy general manager	M	42	2003.04-2006.04	0	0	
Cui Xiaomei	Deputy general manager	F	50	2003.04-2006.04	0	0	
Li Jun	Board Secretary	F	36	2003.04-2006.04	0	0	

Note: Positions of the Directors and Supervisors in their respective shareholder companies are as below:

Name	Shareholders Company	Position	Term of

			office
Yin Jiaxu	Changan Automobile Group Company	Board Chairman	1998.07-
	China South Automobile Co., Ltd	Executive Director, President	
Xu Liuping	Changan Automobile Group Company	President, Secretary of the Party Committee	2006.02-
	China South Automobile Co., Ltd	Executive Director, Senior Vice President	2005.12-
Deng Tengjiang	China South Automobile Co., Ltd	Director	2005.12-
Wang Tingwei	China South Automobile Co., Ltd	Executive Director, Vice President	2005.12-
Shi Yubao	Changan Automobile Group Company	Director, Deputy Secretary of the Party Committee, Chairman of the Worker's Union	2000.09-
Wang Chongsheng	Changan Automobile Group Company	Vice President, Deputy Secretary of the Party Committee,	1996.01-
Ma Jun	Changan Automobile Group Company	Vice President,	2001.02-
Cao Dongping	Changan Automobile Group Company	Director of Finance Department	2000.03-

2. Major work experiences and positions in entities other than the share holder of the Directors, Supervisors and the senior management:

(1) Directors

Mr. Yin Jiaxu, Board Chairman, was born in 1956. With a master's degree, he is a senior engineer. He used to be Manager of Yuzhou Gear Factory, Director of the Administrative Office and Deputy General Director of South-west Industries Bureau of China Industries Company, and Vice Chairman of the Board, Deputy General Manager and General Manager of CAC. He is currently Vice General Manager of China South Industries Group, President of China South Automobile Co., Ltd, Board Chairman, President and Secretary of the Party Committee of CAC.

Mr. Xu Liuping, Deputy Board Chairman, was born in 1964. With a doctor's degree, he is a researcher and senior engineer. He used to be Vice Director of Planning department, Director of Automobile department and Assistant of General manager in China North Industries (Group) Company. He is currently Deputy General Manager, Member of the Party Committee of China North Industries (Group) Company, and Executive Director, Senior Vice President of China South Automobile Co, Ltd, President and Secretary of the Party Committee of the Company.

Mr. Zhang Baolin, Director and General Manager, he is a postgraduate a senior economist. Born in 1962, he used to work as Vice Secretary and Secretary of the League Committee of the South-west Industries Bureau in China Industries Company, Secretary of the Party Committee of Chongqing Changfeng Machinery Factory, Vice General Manager and General Manager of Chengdu Wanyou Company, Director and Vice President of CAC, and Senior Deputy General Manager of the Company.

Mr. Deng Tengjiang, Director, was born in 1956. He has obtained a post-graduate degree and professorship and used to be Department Head and School Vice Dean at Chongqing Industries College. He also used to be Vice General Manager of North Industry Finance Co. of China

Industries Company, Vice General Director of South-west Industries Bureau in China South Industries Group Corp., and Vice General Manager, General Manager of Construction Industries Group Corp, and Director of the Audit Department of China South Industries Group Corp. He currently serves as Director of Financial department in China South Industries Group Corp, and Director of China South Automobile Co., Ltd.

Mr. Wang Tingwei, Director, was born in 1971. He has a doctor's degree and the title of Senior Accountant. He used to be Vice Director of Financial department in Administration and Management Bureau of China North Industries (Group) Company, and Section chief and Vice Director of Financial department in China Industries Group Corp. He currently serves as Director of Capital operating department in China South Industries Group Corp, Exevutive Director and Vice President of China South Automobile Co. ,Ltd, and General Manager of China South Industries Estate Management Company.

Mr. Zhao Luchuan, Director, was born in 1953. With a master's degree, he is a senior economist. He used to be Vice Secretary of the Party Committee and Vice General Manager of Jiangling Machinery Factory, Director and Deputy President of CAC, and Deputy Chairman and General Manager of the Company. He currently is Vice Director of South-west District in China South Industries Group Corp.

Mr. Wang Chongsheng, Director, is a senior economist with post-graduate qualifications. Born in 1958, he used to be Secretary of the League Committee of Changan Machinery Factory, Vice Secretary of the Party Committee and Secretary of the Discipline Committee of 5023 Factory, Head of Marketing Department of the Automobile Bureau in China Industries Company, Director of the General Manager's Office of CAC. Currently he is Vice President and Vice Secretary of the Party Committee of CAC.

Mr. Guo Xuewu, Director, was born in 1956. He has scholar's degree and is a senior accountant. He used to be Head of the Finance Department of Changan Machinery Factory, Vice Director and Director of the Finance Department of CAC, and General Manager Assistant, Vice President and Chief Accountant of CAC. He currently serves as General Manager of China South Industry Group Finance Co., Ltd.

Mr. Ma Jun, Director, was born in 1959. He has obtained master's degree in engineering and is a senior engineer. He used to be Vice Head of the Technical Department One, Head of the Technical Department Two, Head of the Standardized Information Department, Vice Director and Director of the General Administration Office, General President Assistant, Deputy Director of the Information Center of Changan Machinery Factory, Vice President, Director of the General Administration Office, Deputy Director and Director of the Information Center of CAC. He currently serves as Vice President of CAC.

Mr. Cui Yunjiang, Director, Deputy General Manager, Board Secretary and Controller of Finance Department, was born in 1963. He has obtained master's degree and is a senior accountant. He used to be Vice Head of the Finance Department of Changan Machinery Factory, Head of the Finance Department of Changan Suzuki Automobile Company, Head of the Securities Department

Mr. Guo Konghui, Independent Director, was born in 1935. He used to be Chief Engineer of Changchun Automobile Research Academy, and Vice President of Jilin Industries University. He is currently Dean of the Automobile School of Jilin University, Director of National Key Laboratory of Automotive Dynamic Simulations at Jilin University, Deputy Chairman of China Association of Automobile Manufacturers, Member of China Academy of Engineering, Professor, and Tutor of doctor.

Mr. Xia Donglin, Independent Director, was born in 1961. He has doctor's degree and is a certified public accountant. He used to be tutor and vice-professor at Jiangxi University of Finance and Economics, Manager of China Consultants of Accounting and Financial Management Company, and Director of Accounting Department at School of Economics and Management, Tsinghua University. He is currently professor and tutor of doctor at the Accounting Department at School of Economics and Management, Tsinghua University.

Mr. Gao Zhikai, the Independent Director, has a doctor's degree of Law was born in 1962, he is the Senior Vice President of PCCW China, Secretary, Chief Consulter of Laws, and the international director of the Asia Association. He used to serve as executive director in HongKong telecom Yingke(China) Co. Ltd., the vice president in Morgenstanley Investment Bank, Counsellor about Chinese affairs of Hongkong Security and Futures Commission, and Executive President of China Finance Investmeng Company.

Mr. Wen Zongyu, Independent Director, was born in 1963. He has obtained doctor's degree and used to work in the State-owned Assets Management Bureau, State-owned Assets Allocation Optimization Research Center of the Ministry of Finance and Financial Science Research Institute of Ministry of Finance. He is currently Director of the State-owned Economy Department of Financial Science Research Institute of Ministry of Finance, primarily involved in the research areas of planning and management of budget of the State-owned Capital, stated owned enterprise reformation, modern property right management, capital operation, enterprise combination and group financial risk control. He has twelve research papers and over three hundred articles which has been published and with words more than six million. He also had acquired the certificate of listed company Independent Director in October 2001.

Mr. Liu Wei, Independent Director, was born in 1964. He has doctor's degree and used to work as tutor, Department Head Assistant, Vice Dean and vice professor at Chongqing University. He is currently professor and tutor of doctor at Chongqing University involved in strategy management, technical innovations and management studies.

(2) Supervisors

Mr. Shi Yubao, Organizer of the Board of Supervisors, was born in 1953. He has obtained master's degree and is a senior economist. He used to be Vice Director of the Party Council Office of CAC, and Secretary of the Party Committee, Deputy Manager and Manager of Automobile Manufacturing Factory. He is currently Director, Vice Secretary of the Party Committee and Chairman of the Labors' Union of CAC.

Mr. Peng Minggeng, Supervisor, was born in 1950. He graduated from a junior colleague and used to serve as Vice Manager of the Machinery Factory of CAC, Head of the Department of Managers, Vice Director of the Human Resource Department and Head of Employment Relationship Department of CAC, and Vice Secretary of the Party Committee, Vice President of CAC and Secretary of the Discipline Committee of CAC. He currently serves as Deputy General Manager of Changan Suzuki Automobile Company.

Ms. Zhou Xiaying, Supervisor, was born in 1949. She has a scholar's degree and is a senior economist. She used to be Vice Chairman of the Labors' Union of Jiangling Factory and CAC, and Vice Secretary of the Party Committee, and Secretary of the Discipline Committee of CAC. She is presently retired.

Ms. Cao Dongping, Supervisor, was born in 1953. She graduated from a junior colleague and obtained the title of senior accountant. She used to be Head of the Finance Department of Jiangling Engine Company, and Vice Director of the Finance Department of CAC. He is currently Director of the Finance Department of CAC.

Ms. Xiong Huilin, Supervisor, was born in 1959. She is a postgraduate and senior economist, and used to be Director of Administrative Office of Automobile Manufacturing Factory of CAC, Chairman of the Labors' Union of education's department of Changan Machinery Manufacturing Factory. At present, she serves as Chairman of the Labors' Union of Changan Suzuki Automobile Company.

Mr. Zhu Zhiping, Supervisor, was born in 1962. He has obtained master's degree and is a senior economist. He used to be Head of the Human Resource Department of Automobile Manufacturing Factory and Vice Head of the Human Resource Department of the Company. He currently serves as Director of Human Resource Department and Labor and Salary Department of the Company.

Mr. Hua Dubiao, Supervisor, was born in 1967. He is a graduate, and obtained the title of Accountant. He used to be Vice Head and Head of the Audit Department of the Company and Vice Head of Audit Department of the Company. He is currently Vice Director of Audit and Supervision Department and Head of Audit Department of the Company.

Ms. Fu Xiangyu, Supervisor, was born in 1955. He graduated from a junior colleague and has obtained the title of Accountant. He used to be Vice Head and Head of the Finance Department at the Automobile Manufacturing Factory. She is currently Head of the Cost and Price Department of the Company.

(3) Senior Management other than Directors and Supervisors:

Mr. Zhu Huarong, Senior Vice General Manager, was born in 1965. He has master's degree in engineering and is a senior engineer. He used to be Vice Director of the Engine Research Academy of Jiangling Machinery Factory, Vice Director of Technical Department of CAC, Chief Engineer of the Automobile Manufacturing Factory of the Company, General Manager Assistant and Vice President of CAC.

Mr. Huang Zhongqiang, Senior Deputy General Manager of the Company and Deputy General Manager of Changan Suzuki Automobile Company. He was born in 1968 and has a master's degree in engineering. He is a senior engineer and used to be Vice Director and Director of the General Manager's Office of CAC, Director of the Quality Department, General Manager Assistant and Vice President of CAC.

Mr. Jia Tingyue, Vice General Manager, was born in 1963. He has scholar's degree and is a senior engineer. He used to be Vice Director of Machinery and Dynamics Department of Changan Machinery Factory, Vice Director of the Engineering Design Academy of CAC, Vice Chief Engineer, Vice Manager and Manager of the Automobile Manufacturing Factory of the Company, and Vice President of CAC.

Mr. Zou Yi, born in 1963, is Vice General Manager of the Company and General Manager of Nanjing Changan Automobile Company. He has master's degree and is a senior engineer. He used to be Vice Head of Supplies Department of the Company, Vice Head of Supplies Department of CAC, Head of Supplies Department, Vice Chief Engineer and Director of the Civil Products Research Academy of Changan Special Machinery Factory, Vice Manager and Head of Purchase Department of Automobile Manufacturing Factory of the Company, Manager of the Engine Company, and Vice President of CAC.

Ms. Cui Xiaomei, Vice General Manager, was born in 1955. She has obtained a double scholar's degree, and is a senior economist. She used to be Vice Director of the Final Assembly Workshop, Vice Manager of Sub-factory One, Vice Head of Planning Department, Vice Head of External Business Department of Jiangling Machinery Factory, Secretary of the Party Committee of Precision Machinery Factory in CAC, Secretary of the Party Committee and Deputy General Manager of Changan Automobile Sales Company, General Manager Assistant of CAC, Deputy General Manager of Chongqing Changan Suzuki Automobile Co., Ltd, Vice Secretary of the League Committee, and Secretary of the Discipline Committee of CAC.

Ms. Li Jun, Secretary of the Board and Head of the Capital Operations Department of the Company, was born in 1969. She has obtained scholar's degree, MBA the title of Senior Accountant. She used to be Vice Head of the Securities Department of the Company.

3. Remuneration of the year

In 2005, the annual remuneration for the directors, supervisors and senior management had been duly paid by month according to the relevant policy on management salary and by ranks and grades set by China South Industries Group.

Name	Position	Remuneration in 2005 (In RMB 10 thousand)
Zhang Baolin	Director, General Manager	34.96
Zhao Lusheng	Director	37.75
Cui Yunjiang	Director, Deputy General Manager, and Board Secretary	16.63
Guo Konghui	Independent Director	5
Xia Donglin	Independent Director	5

Gao Zhikai	Independent Director	5
Wen Zongyu	Independent Director	5
Liu Wei	Independent Director	5
Xiong Huilin	Supervisor	11.11
Zhu Zhiping	Supervisor	9.92
Hua Dubiao	Supervisor	9.87
Fu Xiangyu	Supervisor	7.36
Zhu Huarong	Senior Deputy General Manager	34.91
Huang	Senior Deputy General Manager	34.98
Jia Tingyue	Deputy General Manager	27.51
Zou Yi	Deputy General Manager	20.56
Cui Xiaomei	Deputy General Manager	15.51
Li Jun	Board Secretary	6.09

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

During the reporting period, the leaders who get compensation from shareholders' and related company are as follows:

Chairman: Yin Jiaxu, Deputy Chairman: Xu Liuping, Director :Deng Tengjiang, Wang Tingwei, Wang Chongsheng and Ma Jun, Organizer of the Board of Supervisors :Shi Yubao, Supervisor: Peng Minggeng and Cao Dongping

4. The Employees of the Company

By the end of the year, total headcount of the Company was at 8,242, including 4,415 production workers, 1,214 salespersons, 1,526 technicians, 299 finance staff, and 265 administrative staff, and 523 others. Of the total, there were 6 with doctorate degree, 108with master degree, 1,840with bachelor degree, and 1,453with college education or above.

VI. Corporate Governance Structure

1. Corporate Governance

The Company has been strictly complying with the relevant laws and regulations, including the Company Law, the Securities Law, the Regulations for the Governance of Listed Companies, the Guidelines for the establishment of Independent Directors system in Listed Companies, Regulations on Strengthening the Protection of Social and Public Shareholders' Interests 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 drew up and executed a series of disciplines, including Articles of Association, Regulations on Shareholders' general meeting, Regulations on Board of Directors, Regulations on Board of Supervisors, Regulations on Guarantee, and Management Regulations on Investment Relationship. The actual conditions of the Company's corporate governance do not differ substantially from those stipulated by the regulations on corporate governance of listed companies issued by China Securities Regulatory Commission.

2. The Independent Directors

There are 5 Independent Directors on the Board of the Company, which is in accordance with relevant regulations by the China Securities Regulatory Commission. The independent directors of the Board have been honest, diligent and industrious in fulfilling their duties and expressed independent opinions on investment, related party transactions, incentives and other significant transactions, thus contributing to the improvement in the corporate governance of the Company, the decision-making mechanism of the Company and the safeguard of the Company's interest, especially of the minority shareholders' interests. The independent directors also made contributions in areas of innovation, remuneration-system, corporate governance and financial management.

(1) Independent Directors' Attendance of the Board Meetings:

Name of Independent director	Times of Attendance Required	Times of Attendance in Person	Times of Entrusted Attendance	Times of Absence
Guo Konghiu	7	6	1	
Xia Donglin	7	3	3	1
Wen Zongyu	7	7		
Gao Zhikai	7	6	1	
Liu Wei	7	7		

(2) In the reporting period, no negative opinion is raised by the Independent Directors.

3. The 5 Areas of Segregation

(1) Operation:

The main business scope of the Company includes the development, manufacture and sale of automobiles, engines and automobile related parts. The main business has been approved by government authorities and the Company does not solely rely on any other entity. The

Company has the technology, production capacity and sales employees related to its business scope and can undertake the operations independently.

(2) Assets:

The Company has necessary fixed assets, current assets, intangible assets and related departments to meet its operation needs, and has developed a complete system.

(3) Employee:

The Company signed labor contracts with the employees based on the registered employee list. It takes responsibilities for the employees' performance, salary, pension, housing fund and other welfare of the employees independently.

The Directors, Supervisors and senior managers are recommended by Changan Automobile Group Company, the selection and engagement of who are in conformity with Corporate Laws and Article of Association. The senior managers work for the Company full time and received salary from the Company.

(4) Organization:

Each division and department of the Company is independent from the controlling shareholders and exercises their rights in accordance with the relevant regulations.

(5) Finance:

The Company has its independent financial department, established independent accounting system and financial management system.

4. Performance Review System of the Senior Management

(1) Performance review system:

According to the performance review management system of the Company, the Board is responsible for reviewing the performance of the General Manager and other senior management. The performance review combines periodic and regular reviews, as well as quantifying and qualifying reviews.

(2) Incentive system

The income of senior management comprises basic salary and performance-related pay. Performance-related pay is related to performance reviews.

(3) Regulating system

The Company has signed Employment contracts with the senior management, and regulates the exercise of power, the limitations of power and duties and responsibilities of the senior management.

(4) The establishment and implementation of the incentive system

The plan of appropriation of incentive fund was passed in the Annual General Meeting of the Company 2004, according to that a certain rate, decided by the Board, of prior year's consolidated net profit is appropriated as incentive fund when the audited Rate of Return on

Shareholders' Equity of the prior year reaches 10%. No such fund is appropriated when the audited Rate of Return on Shareholders' Equity is below 10%.

In 2005, the Board decided to accrue incentive fund according to 3% of 2004's consolidated net profit. During the reporting period, the Company has appropriated RMB 35.92 million for incentive fund, and the remaining amount is RMB 59.33 million.

VII. Shareholders' general meeting

During the reporting period, three Shareholders' general meetings were held:

1. The Board of Directors announced the First Session of the Temporary Shareholders' general meeting 2005 on December 8, 2004 through China Securities, Securities Daily and Hong Kong Business. The meeting was held on January 10, 2005 at Chongqing Changan Technique and Science Building. The resolutions were announced on China Securities, Securities Daily and Hong Kong Business on January 11, 2005.
2. The Board of Directors announced the Shareholders' general meeting of 2004 on April 15, 2005 through China Securities, Securities Daily and Hong Kong Business. The meeting was held on May 26, 2005 at Chongqing Changan Hotel. The resolutions were announced on China Securities, Securities Daily and Hong Kong Business on May 27, 2005.
3. The Board of Directors announced the Second Session of the Temporary Shareholders' general meeting 2005 on October 31, 2005 through China Securities, Securities Daily and Hong Kong Business. The meeting was held on December 2, 2005 at Chongqing Changan Hotel. The resolutions were announced on China Securities, Securities Daily and Hong Kong Business on December 3, 2005.

VIII. Report of the Board of Directors

1. Review for the business in the reporting period

(1)General operation status in the reporting period

A. Industrial status in the reporting period

The year 2005 has seen a vital period for accomplishing the Tenth five-year' Plan and linking up the eleventh Five-year' Plan. On the adverse condition that competition in the automobile industry was more and more severe, the Profit-making space kept shrinking, the price of raw materials, such as steel and oil, climbed up continually, and the customers held cash rather than consuming in China at large, the Company carried out the "3337" strategy seriously, worked hard, and made unceasing progress. Finally, it stood the racket from unprecedented keen competition in domestic automobile market, made a new comprehensive development, and achieved the yearly objective of production and operation.

a. Insist on bettering products, lowering the cost, working steadfastly, strengthening the company and speeding up the reaction for the change of market.

b. Concentrate on action named "Cost Storm", apply Value Project management in product development, marketing and service, quality and cost, and etc., further the work on control of cost, and boost up the lasting profit ability.

c. Work on the management of CPS, and enhance ability of both production and administration. During a year, the Company promoted the CPS management on four aspects, respectively publicizing, training, systematic building, and strict examining, optimized the allocation of human resource, capital, materials and other factors of production, simplified the process in logistics, communication, and financing, resulting in the advance of production and management.

d. With the guidance of strategy that is working in details to reach the ultimate success, make every effort on marketing and service, and expanding in both domestic and oversea market.

e. For the product development, attach importance to CA-PDS, PDM, human resource, and standardisation, realize the unification of project management and data management, in order to lay stable foundation for cooperative research, data safety, collectivizing development and management, and promotion the ability of self-innovation.

f. With the direction of process control and quality improvement, build integrative management system of quality environment and occupational health & safety, institute <Evaluation method for system of quality management>, and create Evaluation system for Road Test, and Evaluation system of "奥迪特".The company is bettering the evaluation system for quality and working hard for developing more excellent product.

g. Make a point of human resource through enrolling the talent and training, intensify the objective management and performance management, and constitute integrative system for exploitation of human resource.

B. Overall business operations

Item	2005	2004	(%)
~~Sales~~	19,168,550	18,526,610	3.46%
Profit from major business lines	3,022,160	3,920,501	-22.91%
Net profit	199,309	1,197,215	-83.35%

During the reporting year, a 3.46% in sales increase from 2004, mainly due to the sales of Changan Ford and Hebei Changan increased 77,799and 100,588 ten thousand respectively.

During the reporting year, a 22.91% in Profit of sales and a 82.35% in Net profit decrease from 2004, because the Company's profitability descended for the adjustment in selling price of Changan automobile series and changes in structure of selling variety, and, in the meantime, the selling expense and running expense rose, leading to the Profit from major business lines decreased by 84.65%; the net profit of Changan Ford declined by 72.70% for the adjustment in selling price and the rise of tariff rate; and the net profit of Changan Suzuki declined by 57.18% for decrease in sales volume, the adjustment in selling price, and changes in structure of selling variety.

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

The Company was mainly engaged in the development, manufacture and sales of mini cars and vans, multifunction vehicles and sedans including Changan Star mini-car series, Changan mini-van, Changan Suzuki's Alto mini sedans, Lingyang and Yuyan sedans, Changan Ford's Fiesta, Focus, Mondeo sedans, Jiangling holding's Landwind multifunction vehicles and the manufacture and sales of various types of Jiangling brand engines.

In 2005, the Company totally produced 489,368 vehicles, a 2.95% increase from 2004. And a total number of 474,625 vehicles were sold, a 4.48% increase from 2004. The Company has 8.24% share in the national automobile market, and manufacture and sales status are shown in the table below:

Name of product	2005 1-12		2004 1-12	
	Production Volume	Sales Volume	Production Volume	Sales Volume
Mini-cars	264,277	258,334	280,170	254,798
Mini-vans	101,580	96,042	62,847	66,051
sedans	123,511	120,249	132,340	133,413
Total	489,368	474,625	475,357	454,262

Note: The production and sales volume of Ford is the same scope as that of the consolidated financial statements,

namely 50% of Ford's total volume, which in the same scope as that of the consolidated financial statements.

a. The following table illustrates the Company's sales and cost of sales by line of business and product category (in RMB ten thousand):

Line of business/product	Sales		Cost of sales		Gross margin rate	
	Amount	Fluctuation from 2004	Amount	Fluctuation from 2004	Amount	Fluctuation from 2004
Part sales	1,916,855	3.46%	1,542,354	10.33%	15.91%	-24.70%
Mini-car sales	1,027,379	3.32%	830,765	10.91%	15.51%	-27.04%
Sedans sales	814,097	-0.78%	654,281	5.25%	16.01%	-23.11%

b. The following table illustrates the Company's domestic and foreign sales and cost of sales (in RMB ten thousand):

Domestic/Foreign	Sales	Fluctuation from 2004
Domestic	1,894,175	2.96%
Foreign	22,680	75.41%

c. Major suppliers and clients

In 2005, gross purchase by the Company from the top five suppliers accounted for 269,497, 16.84% of total purchase of the year; and gross revenue from the top five clients accounted for 183,066, 9.6% of the total revenue of the Company.

The following table illustrates the business operation information and results of the major subsidiaries and joint-ventures (in RMB Ten thousand except unless otherwise stated):

Entity	Registered Capital	Attributable Equity	Principal activities	Total assets	Net Profit
Chongqing Changan Suzuki Automobile Co., Ltd.	USD 7,000	51%	Manufacture and sale of automobiles and spare parts	279,144	11,069
Changan Ford Automobile Co., Ltd.	USD 10,764	50%	Manufacture and sale of automobiles and spare parts	712,490	24,716
Nanjing Changan Automobile Co., Ltd.	60,181	71.05%	Manufacture and sale of mini auto-mobiles and spare parts	150,938	-4,501
Hebei Changan Automobile Co., Ltd.	26,469	66.51%	Manufacture and sale of auto-mobiles and spare parts	115,273	3,054
Jiangxi Jiangling Holding Co., Ltd.	100,000	50%	Investment	190,165	6,629
Changan Ford Mazda Motor Co., Ltd	USD 13,920	50%	Manufacture and sale of engine and spare parts	Operations have not yet started	
Sales Offices	14,104	80%-100%	Sale of automobiles and spare parts	197,157	327
Chongqing Changan Automobile Import and Export Co., Ltd.	1,376	95%	Import and export, wholesale and retail of automobiles and spare parts	11,347	174
Chongqing Changan Automobile Sales Co., Ltd.	4,850	100%	Sale of automobiles, engines and etc.	4,341	11
Chongqing Changan	500	50%	Sale of special automobiles and	2,963	304

Special Automobile Co., Ltd.			spare parts, automobile repair		
Chongqing Changan Service Co., Ltd.	3,000	99%	Sale of automobiles and spare parts	5,796	970
Chongqing Anfu Automobile Co., Ltd.	3,200	50%	Sale of automobiles and spare parts	17,618	877

(2) Prospect for the further development

A. Prospect for the Company's further development

a. Seen from the economic environment, economy of China is in the brand-new prosperous period, and keeping a long-term up trend. Therefore, the development of China's automobile market will keep increasing at a high speed.

b. Seen from political environment, the Company is faced with two opportunities, independent development and encourager for automobiles with small engine displacement from government. Especially, for <Notice about encourager for engine-saving and environmental friendly automobiles with small engine displacement>issued by six national ministries in the beginning of year, the limits on running way and operation of taxi is cancelled, which provides a favorable opportunity for developing Mini-cars and economy vehicles.

c. Seen from consumption environment, along with the cancellation of automobile with small engine displacement, urbanization and improvement of traffic in rural area, and addition of miles opened to traffic, the importance that Mini-cars replace Agriculture vehicles is strengthened. Especially government has being carried out measures to resolve the problem of "Peasant, Rural and Agriculture" and develop the agriculture economy, and encourage the spare agriculture labor to be individual operator, which provide a favorable opportunity for the Company's developing strategy-Based on Mini-cars.

B. Operating Plan for 2006

The Company will be sticking on the strategy that the development is based on Mini-cars, major in sedans, developing commercial vehicles, and improving service, be directed by the 3337 policy, be guided with "11th Five-Year Plan", hold the chance of Cost Storm, and strength the power on cost control. Therefore, the Company will endeavour to enhance the management and production, better the capability on marketing, improve organizing efficiency, develop new product, and attach importance to quality and safety, in order to stress to develop its core competitive ability. In 2006, The Company aims at stable progresses on the existing basis, and increasing automobile production and sale volume to 700,000(100% of Ford's volume incorporated), and income from sales to RMB 27,000,000,000.

C. Requirement for capital and its employment in 2006

For the operating and producing objective of 2006, it is estimated that liquidity in amount of 800 million-1,000 million will be needed for running, part of which comes from it owned fund and cash receipt of sales, and part of which comes from short-term bond and loan.

D. The analysis about adverse factors for realization of the Company's development strategy and operating objectives and effective solution

In 2006, the primary risks which the Company will meet include:

a. Market risk: the intensive competition in China' s automobile market, fluctuation of raw materials' s price, and diversity of customers' demand result in the uncertainty of profit in automobile market in future.
b. Interest rate risk: the condition of continual RMB appreciation will weaken the competition of products in international market; but save the purchase cost of spare parts imported.

The Company will take the measures below to minimize the impact of such risks:

a. Continue work on Cost storm, make a point of controlling cost in three cycle, respectively that of development in new product, manufacture and production, marketing, and service by performing leading cost.
b. Keep improving itself to enhance competition in product quality; develop new product to strength self-innovation; better customer service and marketing to exploit both domestic and oversea market; explore human resource to establish supporting system of the talented person.
c. Make good use of the various financial tools to weaken the influence from the fluctuation of exchange rate.

2. Investments of the Company in the reporting period

(1) Analysis of the Company's investment

In the reporting period, the Company participated the investment to Jiangling Motor Co., Ltd through Jiangxi Jiangling Holding, and injected RMB 80 million in China South Industry Group Finance Co, Ltd.

Please refer to the table of business operation information and results of the major subsidiaries and joint-ventures in this chapter.

(2) The use of proceeds from previous public offering (in RMB 10 Thousand)

There is no use of proceeds from previous public offering.

(3) The use of proceeds other than from previous public offering (in 10 Thousand)

No.	Investment project	Funds injected	Project stage	Earnings
1	Automobile production line	28,179	In progress	Included in the overall earnings of the Company
2	Engine production line	9,601	In progress	
3	Technology Development Centre	10,712	In progress	
4	ERP project	550	In progress	
5	Others	1,350	In progress	
Total		50,392		

3. The work of the Board of the Directors

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

During the reporting period, there are seven meetings of the Board of the Directors.

a. The thirteenth session of the Board of the Directors' third meeting was held on March 13, 2005 and the following proposals were passed:
   - (a). Report of the Board of the Directors.
   - (b). Report of the general manager
   - (c). Annual financial report and the extract for the year 2004
   - (d). Final financial settlement for the year 2004
   - (e). Proposal of adjusting incentive fund.
   - (f). Profit distribution scheme for the year 2004
   - (g). Proposal of appointing Mr Wang Tingwei as Director of the Board of the Directors' third meeting.
   - (h). Related party transaction for the year 2004 and 2005
   - (i). Amendment to the Article of Association

b. The fourteenth session of the Board of the Directors' third meeting was held in the Company on April 21, 2005, and the financial report for the quarter one of the year 2005 was passed through conference call.

c. The fifteenth session of the Board of the Directors 'third meeting was held on July 15, 2005, and the proposal of investment to newly-established China South Industry Group Finance Co., Ltd was passed through conference call.

d. The sixteenth session of the Board of the Directors ' third meeting was held on August 23, 2005, and the following proposals was passed:
   - (a). The semi-annual financial report and the extract for the year 2005
   - (b). Proposal of the semi-annual financial report.
   - (c). Reappointment of the auditor.

e. The seventeenth session of the Board of the Directors 'third meeting was held on October 10, 2005, and the proposal of investment to Changan Ford Mazda Motor Company Limited was passed

f. The eighteenth session of the Board of the Directors' third meeting was held on October 28, 2005, and the following proposals were passed:
   - (a). The financial report for the quarter three of the year 2005
   - (b). Report of resolving the problem of fund impropriated the illegal surety
   - (c). Setting up 7 sales offices with the investment of 6 million
   - (d). Proposal of authorizing the management to be responsible for issuing short-term bond.
   - (e). Notice of holding the Second temporary Shareholders' meeting.

g. The nineteenth session of the Board of the Directors' third meeting was held on December 2, 2005 and the following proposals were discussed and passed:

(a). Proposal of agreement on Jiangling Motors Co., Ltd' s scheme for share merger reform based on relative regulation of China Securities Regulatory Commission and Shenzhen Stock Exchange.

(b). Proposal of agreement on the commitment Jiangxi Jiangling holding in the process of Jiangling Motors Co., Ltd' s share merger reform.

(2) During the reporting period, the Board of the Directors executed the resolution passed in the General Meeting strictly and the following jobs were accomplished.

a. Profit distribution

Based on the profit distribution scheme passed in the General Meeting on May 26, 2005, the Company's Board of the Directors announced the dividend distribution in <China Security>, <Security Times> and <Hong Kong Business Express> on June 3, 2005 and execute the scheme accordingly.

b. Incentive fund appropriation and application

Based on the approval of the General Meeting, the Company appropriated the incentive fund with the amount RMB 35.92 million. So far, the accumulated amount distributed is RMB 62.71 million, and the remaining amount is RMB 59.33 million.

c. Further capital injection in Jiangxi Jiangling Holding

Based on the approval of the First Session of the Temporary Shareholders' general meeting 2005, the capital increase investment in Jiangxi Jiangling Holding in amount of 450 million by its own capital, and complete the procedure at the end of 2005.

d. Issuing short-term corporation bond

Based on the approval of the Second Session of the Temporary Shareholders' general meeting 2005, the Company plan to issue short-term corporation bond less than 1 billion, and has succeeded in first issuing in amount of 500 million, with interest rate 3.21% on March 27, 2006.

4. The draft scheme for the profit distribution or transferring capital reserve into share capital of 2005

The net profit of 2005 is RMB 236,750,289 (RMB 199,309 thousand under IFRS), add the retained earning RMB 1,920,803,018 and the profit available to be distributed is RMB 2,157,553,307. Transfer from statement of income to statutory reserve fund is RMB 26,902,294, to statutory common reserve fund is RMB 23,711,851. As to Changan Suzuki and Chang Ford, who was included in the consolidation scope, the transfer to staff bonus and welfare fund is RMB 15,380,000, to reserve fund is RMB40,800,000, to enterprise expansion fund is RMB11,220,000. The retained earning is RMB 2,039,539,162 and the common share dividend transferred to the capital RMB518,671,744, and the result is RMB 1,520,867,418(RMB 1,424,739 thousand under IFRS).

According to the scheme of the profit distribution, the cash dividend is RMB 0.60 (including tax) per 10 shares, totalled RMB 97,250,952 (including tax). There was no transfer from capital reserve to share capital.

5. Other Matters

The publication for information disclosure of the Company is China Securities, Securities Daily and Hong Kong Business.

IX Report of the Board of the Supervisors

1. The basic information of the meeting

During the reporting period, there are two meetings of the Board of the Supervisors.

(1) The fifth session of the Board of the Supervisors' third meeting was held on April 13, 2005 and the report of the Board of the Supervisors for the year 2004, the annual financial report and the extract for the year 2004, the final financial settlement for the year 2004, and proposal of related-party transactions were discussed and passed.

(2) The sixth session of the Board of the Supervisors' third meeting was held on August 23, 2005, and the semi-annual financial report and the extract and the proposal of the semi-annual financial report were discussed and passed.

2. The working result of the Board of the Supervisors

During the reporting period, all the supervisors of the Company sat in all of the meetings of the Board of the Directors, give their independent opinions and exercise the right of the supervision. In accordance with the Company Law and the Article of the Association, the supervisors exercise following rights:

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

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

(2) Review of the financial status of the company

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

(3) Supervision of the use of proceeds from the public offering

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

(4) Supervision of the acquisition and disposal of the assets

Through its review, the Board of the Supervision was of the view that the price of the acquisition and disposal of the assets was fair and reasonable and there is no under-table transaction, no acts harmful to the interests of the shareholders or leading to the loss of company's assets.

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(5) Supervision of the related party transaction

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

X. Important Matters

1. Major litigations and arbitrations of the year

There are no major litigations and arbitrations during the reporting year.

2. The acquisition and disposal of asset, and merger and acquisition during the year

There is no acquisition and disposal of asset, and merger and acquisition during the reporting year.

3. Significant related party transactions

In the reporting period, the information of the related party transactions with the accumulated amount over 30 million and 5% of the net assets is as follows:

(1) Transaction Category

a. Purchase of materials and sales of automobile

In the reporting period, the Company purchased automobile spare parts from Chongqing Changan Jinling Vehicles Parts Co., Ltd with the market price. The total transaction amount is RMB 529,893,561, which comprises 3.31% of the total transaction amount with same nature. The Company also sold raw materials to it at market price with total transaction amount of RMB 107,809,778, which comprises 0.56% of the total amount of the same nature of transaction.

In the reporting period, the Company purchased automobile spare parts from Chongqing Tsingshan Industries Co., Ltd at market price. The total transaction amount is RMB 333,182,416, which comprises 2.08% of the total amount of the same nature transaction. The company also sold raw materials to it at market price with total transaction amount of RMB 1,030,123, which comprised 0.01% of the total transaction amount with same nature.

In the reporting period, the Company sold automobile to Chengdu Wanyou Economic Technological Development Co.,Ltd at market price. The total transaction amount is RMB 438,780,747, which comprises 2.29% of the total amount of the same nature transaction.

In the reporting period, the Company sold automobile from Chongqing Wanyou Economic Development Co., Ltd. at market price. The total transaction amount is RMB 398,640,709, which comprises 2.08% of the total amount of the same nature transaction. The company also Company purchased automobile spare parts from it at market price with total transaction amount of RMB 84,432,467, which comprised 0.53% of the total transaction amount with same nature.

b.Purchase of service

In the reporting period, Chongqing Changan Minsheng Logistics Co. Ltd. Provide service of logistic, warehouse and transportation to the Company with the market price. The total transaction amount is RMB 712,939,188, which comprises 98.79% of the total transaction amount with same nature.

c. Co-Investment

In order to improve the efficiency of capital's utilization, based on the approval of China Banking Regulatory Commission, the Company together with its ultimate parent of the controlling shareholder China South Automobile Co. Ltd and six of its subsidiary established China South

Industry Group Finance Co., Ltd, and inject 520 million as registered capital. The business scope of China South Industry Group Finance Co., Ltd is:

Consultation about finance for league, credit evaluation, related consultation and agent, receipt and payment among leagues, authorized insurance agency, providing guarantee for leagues, being entrusted to loan and investment by leagues, handling the operation of note acceptance and discount, settling the current account among leagues and designing the project of settlement and liquidation, absorbing leagues' deposit, finance lease, and inter-bank borrowing.

Each contribution and proportion of shares is illustrated as follows:

No.	Name of shareholder	Contribution (in RMB 10 thousand)	Proportion(%)
1	China South Industry Group Corp	35,500(including $6 million)	68.27
2	Chongqing Changan Automobile Co.,Ltd	8,000	15.39
3	Henan Zhongyuan Special Steel Group Ltd.	3,000	5.77
4	Chengdu Guangming Photoelectricity and Communication Material Ltd.	1,500	2.89
5	Huazhong Precision Instrument Factory	1,000	1.92
6	Yunnan Southwest Instrument Industrial CO.,Ltd.	1,000	1.92
7	Chongqing Jiangling Construction Co., Ltd	1,000	1.92
8	Hunan Jiangbin Machinery(Group)Ltd.	1,000	1.92
	Total	52,000	100

In 2005, China South Industry Group Finance Co., Ltd hold total assets in amount of 1,497.68 million and net profit in amount of -7.7 million.

(2) Impact on the Company

Changan Jinling Vehicles Parts Co., Ltd and Chongqing Tsingshan Industries Co., Ltd are the mass producer of the automobile spare parts with the large capability and good quality, from whom the purchase could lower the cost and be good to the R&D of the new spare parts. The purchase from such related parties is necessary and will go on in the future.

Chengdu Wanyou Economic Technological Development Co.,Ltd and Chongqing Wanyou Economic Development Co., Ltd. are the dealers of automobile. Since both of them have established mass sales system which is favourable for the sales of the Company's product. The sales to such related parties is necessary and will go on in the future.

Chongqing Changan Minsheng Logistics Co. Ltd. is the professional provider of the logistic service, who transports the automobile and spare parts for the Company, which is good to the logistic management of the Company. Such transaction is necessary to the Company's sales and production and will go on in the future.

The action that the Company cooperated with its ultimate controller to investment in finance company is good to centralized management for fund and improvement in efficiency of fund utilization.

The above transaction is dealt based on the market price or the presumption price, and is fair and reasonable, which is necessary to the Company's business and no harm to the Company and the non-related parties 'benefits.

4. Major contracts and their fulfillment

(1) There were no major entrustment, contracting by the Company of the assets of other companies and there were no major entrustment, contracting of the Company's assets by other companies. The lease of the assets of other companies by the Company and lease of the assets of the Company was shown as follows:

According to the production needs, the Company rented the office building of Changan Automobile Group Company's Sales Company, the total area is 4,560 square meters, the monthly rental is RMB 40 per sq. m., the remaining building is 34,355 square meters and monthly rental is RMB 35 per sq. m. The Company rented land of CAC of 405,152 square meters, monthly rental is RMB 10 per sq. m. CAC rented the offices of 5th, 8th, 9th and 10th floors of the Science and Technology Building of the Company due to office needs, the area is 9,056 square meters and monthly rental is RMB 40 per sq. m.

(2) Major guarantee.

There is no guarantee in the reporting period, or other guarantee, which occurred in the previous years and last in the reporting period.

(3) Asset entrustment matters

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.

5. Commitment.

(1)During the reporting period, there is no commitment as to the Company or the shareholders who held more than 5% of total shares.

(2)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 ten days after the publication of the report, and entrust Board of The Director to organize meetings of shareholders.

The scheme of the share merger reform was published in <China Security>, <Security Times> and <Hong Kong Business Express> on March 20, 2006, and the adjusted scheme of the transfer of non-tradable shares was published in <China Security>, <Security Times> on March 29, 2006. The meeting of shareholders relative with the transfer of non-tradable shares will be held on April 24, 2006.

(3) Commitment of the controlling shareholder in the reform of non-tradable shares:

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

b. 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.

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

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

In RMB Ten thousand

Year	Auditor	Audit fees	Note
2005	Pricewaterhouse Coopers Zhongtian CPA	RMB 308	The Company provided accommodation, but did not bear traveling expenses

PricewaterhouseCoopers Zhongtian CPA has provided the audit service to the Company for five years.

7 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.

8. Other important issues.

(1) State-owned Assets Supervision and Administration Commission of the State Council (SASAC) approved the scheme of recombination of China South Industries Group Corp, the ultimate controller, in the aspect of automobile industry. According to the reform scheme, China South Industries Group Corp planed to transfer the State-owned shares of CAC in amount of 850,399,200 into China South

Automobile Co.Ltd. The shares transfer from CAC to China South Automobile Co.Ltdhas been completed. Thus, China South Automobile Co.Ltd hold State-owned shares 850,399,200, comprising 52.47% of total, and becomes the controlling shareholder, while CAC don’t hold the shares any longer.

(2) The seventeenth session of the Board of the Directors ‘third meeting was held on October 10, 2005 passed the proposal that the Company inject RMB equivalent of US dollar 69.6 million(accounting for 50% of the new company’s registered capital) to established Changan Ford Mazda Motor Company Limited, cooperating with Ford and Mazda.

(3)CAC (holding 52.47% of total shares), controller share of the Company, impawned shares 354,333,000 comprising 21.86% of the Company’s shares, to China Development Bank with term from December 28, 2001 to November 20, 2007. CAC completed the procedure to cancel the share right impawn in China Securities Depository and Clearing Corporation Limited Shenzhen office on Jan 25, 2006, and the entire shares mentioned above right impawn were cancelled on that day.

CHONGQING CHANGAN AUTOMOBILE CO., LTD.

CONSOLIDATED FINANCIAL STATEMENTS AND REPORT OF THE AUDITORS

FOR THE YEAR ENDED 31 DECEMBER 2005

PwC ZT Shen Zi (2006) No. 2006/SH-064/WCML/TQC

Report of the auditors

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

We have audited the accompanying consolidated balance sheet of Chongqing Changan Automobile Co., Ltd. (hereafter referred to as the “Company”) and its subsidiaries and its joint ventures (hereafter collectively referred to as the “Group”) as at 31 December 2005 and the related consolidated statements of income, cash flow and changes in shareholders’ equity for the year then ended. These financial statements set out on pages 1 to 56 are the responsibility of the Company’s management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the financial position of the Group as at 31 December 2005, and the Group’s results of operations and cash flows for the year then ended in accordance with International Financial Reporting Standards.

PricewaterhouseCoopers Zhong Tian CPAs Ltd., Co.

Shanghai, the People’s Republic of China

13 April 2006

CHONGQING CHANGAN AUTOMOBILE CO., LTD.
CONSOLIDATED BALANCE SHEET
AS AT 31 DECEMBER 2005

All amounts in Renminbi (“RMB”) thousands

		As at 31 December	
	Note	**2005**	**2004**
ASSETS			
Non-current assets			
Property, plant and equipment	5	6,047,177	4,759,172
Land use rights	6	505,766	451,556
Intangible assets	7	104,677	176,637
Investments in associates	8	1,350,472	4,500
Available-for-sale financial assets	9	99,589	21,780
Other non-current assets	10	141,268	3,982
Deferred income tax assets	11	201,205	97,410
		8,450,154	5,515,037
Current assets			
Inventories	12	3,883,668	3,043,572
Trade and other receivables	13	2,673,338	1,814,237
Held-to-maturity investments	14	-	247,298
Other financial assets at fair value through profit or loss	15	-	219,254
Restricted cash	16	86,650	157,952
Cash and cash equivalents	17	3,699,577	3,850,915
		10,343,233	9,333,228
Total assets		18,793,387	14,848,265

The notes on pages 7 to 56 are an integral part of these consolidated financial statements.

CHONGQING CHANGAN AUTOMOBILE CO., LTD.
CONSOLIDATED BALANCE SHEET (CONTINUED)
AS AT 31 DECEMBER 2005

All amounts in Renminbi ("RMB") thousands

	Note	As at 31 December 2005	2004
EQUITY			
Capital and reserves attributable to equity holders of the Company			
Share capital	18	1,620,849	1,620,849
Share premium	19	1,743,168	1,743,168
Other reserves	20	1,554,130	1,451,496
Retained earnings		1,424,739	1,425,315
Proposed final dividends	34	97,251	518,672
		6,440,137	6,759,500
Minority interests		1,657,997	1,144,218
Total equity		8,098,134	7,903,718
LIABILITIES			
Non-current liabilities			
Borrowings	21	964,039	535,000
Deferred income tax liabilities	11	71,853	-
Retirement benefit obligations	22	22,690	21,976
Deferred income	23	361,774	369,613
Other non-current liabilities	24	17,343	-
		1,437,699	926,589
Current liabilities			
Trade and other payables	25	7,840,699	5,236,788
Current income tax liabilities		(9,593)	(17,032)
Borrowings	21	1,078,937	523,943
Provisions for other liabilities and charges	26	347,511	274,259
		9,257,554	6,017,958
Total liabilities		10,695,253	6,944,547
Total equity and liabilities		18,793,387	14,848,265

The notes on pages 7 to 56 are an integral part of these consolidated financial statements.

CHONGQING CHANGAN AUTOMOBILE CO., LTD.
CONSOLIDATED INCOME STATEMENT
FOR THE YEAR ENDED 31 DECEMBER 2005

All amounts in Renminbi ("RMB") thousands, except per share data

		Year ended 31 December	
	Note	**2005**	**2004**
Sales	27	19,168,550	18,526,610
Sales tax and surcharge		(694,395)	(632,618)
Net sales		18,474,155	17,893,992
Cost of goods sold		(15,451,995)	(13,973,491)
Gross profit		3,022,160	3,920,501
Selling and marketing costs		(1,621,357)	(1,504,775)
Administrative expenses		(1,412,428)	(1,145,692)
Other income	30	215,615	236,375
Operating profit		203,990	1,506,409
Finance costs	31	(52,243)	(38,170)
Share of results of associates	8	89,166	-
Profit before income tax		240,913	1,468,239
Income tax expense	32	31,013	(147,988)
Profit for the year		271,926	1,320,251
Attributable to:			
Equity holders of the Company		199,309	1,197,215
Minority interests		72,617	123,036
		271,926	1,320,251
Earnings per share for profit attributable to the equity holders of the Company during the year (RMB per share)			
− Basic and diluted	33	0.12	0.84

The notes on pages 7 to 56 are an integral part of these consolidated financial statements.

CHONGQING CHANGAN AUTOMOBILE CO., LTD.
CONSOLIDATED SATATEMENT OF CHANGES IN EQUTIY
FOR THE YEAR ENDED 31 DECEMBER 2005

All amounts in Renminbi ("RMB") thousands

		Attributable to equity holders of the Company					Minority interest	Total Equity
	Note	**Share capital**	**Share premium**	**Other reserves**	**Retained earnings**	**Proposed final dividends**		
Balance at 1 January 2004		1,226,666	833,438	1,053,878	1,144,390	552,000	947,461	5,757,833
Cash dividend relating to 2003		-	-	-	-	(306,667)	-	(306,667)
Bonus share relating to 2003		245,333	-	-	-	(245,333)	-	-
Proposed final dividends relating to 2004		-	-	-	(518,672)	518,672	-	-
Issue of shares		148,850	909,730	-	-	-	-	1,058,580
Net profit for the year		-	-	-	1,197,215	-	123,036	1,320,251
Reserve transfer		-	-	397,618	(397,618)	-	-	-
Newly incorporated subsidiaries		-	-	-	-	-	50,000	50,000
Dividends paid to minority shareholders		-	-	-	-	-	(18,130)	(18,130)
Additional share of net assets by minority shareholders due to additional injection by the Company		-	-	-	-	-	35,137	35,137
Increase in net assets due to additional injection from minority shareholders		-	-	-	-	-	6,900	6,900
Others		-	-	-	-	-	(186)	(186)
Balance at 31 December 2004		1,620,849	1,743,168	1,451,496	1,425,315	518,672	1,144,218	7,903,718
Cash dividend relating to 2004	34	-	-	-	-	(518,672)	-	(518,672)
Proposed final dividends relating to 2005	34	-	-	-	(97,251)	97,251	-	-
Net profit for the year		-	-	-	199,309	-	72,617	271,926
Reserve transfer	20			102,634	(102,634)	-	-	-
Newly incorporated subsidiaries		-	-	-	-	-	300	300
Dividends paid to minority shareholders		-	-	-	-	-	(6,000)	(6,000)
Additional capital injection by minority shareholders		-	-	-	-	-	450,000	450,000
Transfer shares to the Company		-	-	-	-	-	(4,900)	(4,900)
Additional share of net assets by minority shareholders due to additional injection by the Company		-	-	-	-	-	1,762	1,762
Balance at 31 December 2005		1,620,849	1,743,168	1,554,130	1,424,739	97,251	1,657,997	8,098,134

The notes on pages 7 to 56 are an integral part of these consolidated financial statements.

CHONGQING CHANGAN AUTOMOBILE CO., LTD.
CONSOLIDATED CASH FLOW STATEMENT
FOR THE YEAR ENDED 31 DECEMBER 2005

All amounts in Renminbi ("RMB") thousands

	Note	Year ended 31 December 2005	Year ended 31 December 2004
Cash flows from operating activities			
Cash generated from operations	35	1,412,264	1,629,749
Income tax paid		(50,372)	(234,981)
Net cash generated from operating activities		1,361,892	1,394,768
Cash flows from investing activities			
Proceeds from disposal of property, plant and equipment	35	10,805	17,255
Proceeds from disposal of land use rights		432	-
Decrease in held-to maturity investments		172,432	-
Investment income from financial assets		4,542	9,275
Receipt of government grants		9,039	78,561
Interest received		65,127	57,731
Sub-total of cash inflow		262,377	162,822
Purchase of property, plant and equipment		(1,677,950)	(1,470,312)
Purchase of land use rights		(65,400)	(99,915)
Purchase of intangible assets		(12,547)	(2,784)
Purchase of deferred assets		(2,619)	(1,941)
Purchase of held-to-maturity investments		-	(172,432)
Purchase of available-for-sale financial assets		(80,000)	-
Purchase of subsidiary's shares from minority shareholders		(2,500)	-
Acquisition of subsidiaries, net of cash acquired		-	(2,008)
Sub-total of cash outflow		(1,841,016)	(1,749,392)
Net cash used in investing activities		(1,578,639)	(1,586,570)

CHONGQING CHANGAN AUTOMOBILE CO., LTD.
CONSOLIDATED CASH FLOW STATEMENT (CONTINUED)
FOR THE YEAR ENDED 31 DECEMBER 2005

All amounts in Renminbi ("RMB") thousands

	Note	**Year ended 31 December**	
		2005	**2004**
Cash flows from financing activities			
Contribution from minority shareholders		300	56,900
Gross proceeds from issuance of shares		-	1,100,002
Proceeds from borrowings		1,772,766	911,270
Decrease in restricted cash		71,302	21,615
Sub-total of cash inflow		1,844,368	2,089,787
Repayment of borrowings		(1,474,054)	(375,086)
Interest paid		(74,353)	(28,132)
Dividends paid to shareholders		(518,672)	(306,667)
Dividends paid to minority shareholders		(6,000)	(18,130)
Share issuance expenses		-	(41,422)
Sub-total of cash outflow		(2,073,079)	(769,437)
Net cash (used in)/generated from financing activities		(228,711)	1,320,350
Net (decrease)/increase in cash and cash equivalents		(445,458)	1,128,548
Cash and cash equivalents at beginning of year		4,145,035	3,016,487
Cash and cash equivalents at end of year	17	3,699,577	4,145,035

The notes on pages 7 to 56 are an integral part of these consolidated 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 entities (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, the PRC. The Company has its primary listing in the Shenzhen Stock Exchange.

These consolidated financial statements have been approved for issue by the Board of Directors on 13 April 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 of the Group have been prepared in accordance with International Financial Reporting Standards ("IFRS"). The consolidated financial statements have been prepared under the historical cost convention except as disclosed in the accounting policies below.

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

2 Summary of significant accounting policies (continued)

A Basis of preparation (continued)

In 2005, the Group adopts the new/revised IFRS below, which are relevant to its operations. The 2004 comparatives have been amended as required, in accordance with the relevant requirements.

IAS 1 Presentation of Financial Statements
IAS 2 Inventories
IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors
IAS 10 Events after the Balance Sheet Date
IAS 16 Property, Plant and Equipment
IAS 17 Leases
IAS 21 The Effects of Changes in Foreign Exchange Rates
IAS 24 Related Party Disclosures
IAS 27 Consolidated and Separate Financial Statements
IAS 28 Investments in Associates
IAS 32 Financial Instruments: Disclosure and Presentation
IAS 33 Earnings per Share
IAS 36 Impairment of Assets
IAS 38 Intangible Assets
IAS 39 Financial Instruments: Recognition and Measurement
IFRS 2 Share-based Payments
IFRS 3 Business Combinations
IFRS 5 Non-Current Assets Held for Sale and Discontinued Operations

The adoption of IAS 1, 2, 8, 10, 16, 17, 21, 24, 27, 28, 32, 33, 38, 39, IFRS 2 and IFRS 5 did not result in substantial changes to the Group's accounting policies. In summary:

- IAS 1 has affected the presentation of minority interests and other disclosures;
- IAS 2, 8, 10, 16, 17, 21, 27, 28, 32, 33, 38, 39, IFRS 2 and IFRS 5 has no material effect on the Group's policies;
- IAS 24 has affected the identification of related parties and some other related-party disclosures.

The adoption of IFRS 3 and IAS 36 resulted in a change in the accounting policy for goodwill and the assessment by management of asset impairment. Until 31 December 2004:

- Goodwill was amortised on a straight line basis over its estimated useful life up to a maximum period of 10 years; and
- Goodwill was assessed for an indication of impairment at each balance sheet date.

In accordance with the provisions of IFRS 3:

- The Group ceases amortisation of goodwill from 1 January 2005;
- Accumulated amortisation as at 31 December 2004 has been eliminated with a corresponding decrease in the cost of goodwill; and
- From the year ended 31 December 2004 onwards, goodwill is tested annually for impairment, as well as when there are indications of impairment.

In accordance with the provisions of IAS 36:

- Assets that have indefinite useful lives 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).

The adoption of IFRS 3 results in:

	31 December 2005 RMB'000
Increase in goodwill	12,373

	For the year ended 31 December 2005 RMB'000
Decrease in amortisation of goodwill	12,373

The following amendments and interpretations to standards are mandatory for the Group's accounting periods beginning on or after 1 September 2004:

- IFRIC 2, Members' Shares in Co-operative Entities and Similar Instruments (effective from 1 January 2005);

- SIC 12 (Amendment), Consolidation - Special Purpose Entities (effective from 1 January 2005); and

- IAS 39 (Amendment), Transition and Initial Recognition of Financial Assets and Financial Liabilities (effective from 1 January 2005).

Management assesses the relevance of these amendments and interpretations with respect to the Group's operations and concludes that they are not relevant to the Group.

Certain new standards, amendments and interpretations to existing standards have been published that are mandatory for the Group's accounting periods beginning on or after 1 January 2006 or later periods but which the Group has not early adopted, as follows:

- IAS 19 (Amendment), Employee Benefits (effective from 1 January 2006).

- IAS 39 (Amendment), Cash Flow Hedge Accounting of Forecast Intragroup Transactions (effective from 1 January 2006).

- IAS 39 (Amendment), The Fair Value Option (effective from 1 January 2006).

- IAS 39 and IFRS 4 (Amendment), Financial Guarantee Contracts (effective from 1 January 2006).

- IFRS 1 (Amendment), First-time Adoption of International Financial Reporting Standards and IFRS 6 (Amendment), Exploration for and Evaluation of Mineral Resources (effective from 1 January 2006).

- IFRS 6, Exploration for and Evaluation of Mineral Resources (effective from 1 January 2006).

- IFRS 7, Financial Instruments: Disclosures, and a complementary Amendment to IAS 1, Presentation of Financial Statements - Capital Disclosures (effective from 1 January 2007).

- IFRIC 4, Determining whether an Arrangement contains a Lease (effective from 1 January 2006).

- IFRIC 5, Rights to Interests arising from Decommissioning, Restoration and Environmental Rehabilitation Funds (effective from 1 January 2006).

- IFRIC 6, Liabilities arising from Participating in a Specific Market – Waste Electrical and Electronic Equipment (effective from 1 December 2005).

B Consolidation

(1) Subsidiaries

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

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.

2 Summary of significant accounting policies (continued)

B Consolidation (continued)

(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 (see Note 2 F).

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) Functional and presentation currency

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

(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.

2 Summary of significant accounting policies (continued)

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 (Note 2 G).

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 (Note 2 G).

(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 s 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.

Share capital

N

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.

2 Summary of significant accounting policies (continued)

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.

2 Summary of significant accounting policies (continued)

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

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. No development costs were capitalised by the Group during the year ended 31 December 2005 (2004: nil).

Government grants

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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. The interest rates and terms of the repayment of bank borrowings of the Group are disclosed in Note 21 to the financial statements.

(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 deprecation/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 Property, plant and equipment

	Buildings & Plants RMB'000	Equipment & Machinery RMB'000	Motor Vehicles RMB'000	Construction in progress RMB'000	Others RMB'000	Total RMB'000
Year ended 31 December 2004						
Opening net book amount	623,017	1,914,989	31,404	901,038	83,502	3,553,950
Acquisition of subsidiaries	-	298	-	-	-	298
Additions	140,608	94,760	12,862	1,365,027	20,631	1,633,888
Transfers	358,275	938,025	18,474	(1,444,616)	129,842	-
Disposals (Note 35)	(1,575)	(48,954)	(3,027)	(1,536)	(1)	(55,093)
Depreciation charge (Note 28)	(57,395)	(281,026)	(8,226)	-	(26,457)	(373,104)
Impairment charge (Note 28)	-	(2,931)	2,164	-	-	(767)
Closing net book amount	1,062,930	2,615,161	53,651	819,913	207,517	4,759,172
At 31 December 2004						
Cost	1,249,362	4,298,128	78,078	819,913	281,773	6,727,254
Accumulated depreciation	(186,432)	(1,680,036)	(24,427)	-	(74,256)	(1,965,151)
Impairment charge	-	(2,931)	-	-	-	(2,931)
Net book amount	1,062,930	2,615,161	53,651	819,913	207,517	4,759,172
Year ended 31 December 2005						
Opening net book amount	1,062,930	2,615,161	53,651	819,913	207,517	4,759,172
Additions	10,594	270,434	8,356	1,549,879	20,422	1,859,685
Transfers	306,234	924,953	16,042	(1,346,329)	99,100	-
Disposals (Note 35)	(17,713)	(34,561)	(1,707)	-	(1,223)	(55,204)
Other deduction	-	-	-	(2,988)	-	(2,988)
Depreciation charge (Note 28)	(49,215)	(396,932)	(11,683)	-	(57,125)	(514,955)
Reversal of impairment charge (Note 28)	-	1,467	-	-	-	1,467
Closing net book amount	1,312,830	3,380,522	64,659	1,020,475	268,691	6,047,177
At 31 December 2005						
Cost	1,536,769	5,447,425	98,044	1,020,475	408,322	8,511,035
Accumulated depreciation	(223,939)	(2,065,439)	(33,385)	-	(139,631)	(2,462,394)
Impairment charge	-	(1,464)	-	-	-	(1,464)
Net book amount	1,312,830	3,380,522	64,659	1,020,475	268,691	6,047,177

5 Property, plant and equipment (continued)

During 2005, interest expenses of RMB12,414,000 (2004: RMB4,241,000) arising from borrowings specifically for the construction of property, plant and equipment are capitalised in the cost of construction in progress at the rate of 5.75% (2004: 5.72%) per annum.

All of the Group's properties are located in the PRC. The Group is in the process of obtaining building ownership certificates for properties with an aggregate net book value of RMB254,463,000 (2004: RMB300,058,000).

As at 31 December 2005, buildings with an aggregate net book value of RMB29,549,000 (2004: RMB12,990,000) have been pledged as securities for short-term loans (Note 21).

The Company was established in PRC on 31 October 1996 as a joint stock limited company as part of the restructuring of Changan Automobile Group Co. Ltd. (hereafter referred to as "CAC"), a state-owned enterprise. On the same date, the mini-automobile and engine equipment manufacturing business of CAC together with the relevant assets and liabilities were taken over by the Company. As required by relevant PRC rules and regulations, a valuation of the assets and liabilities to be injected into the Company was carried out on 31 December 1995 and approved by the State-owned Assets Administration Bureau and the injected assets and liabilities were reflected in the accounts on this basis. The 1995 valuation was a one-off exercise that established the deemed cost of the property, plant and equipment injected on the formation of the Company. Subsequent revaluations have not been performed and all further additions have been recorded at cost.

Depreciation expense of RMB456,647,000 (2004: RMB334,751,000) has been charged in cost of goods sold, RMB5,314,000 (2004: RMB5,095,000) in selling and marketing costs and RMB52,994,000 (2004: RMB33,258,000) in administrative expenses.

6

Land use rights

	2005 RMB'000	2004 RMB'000
Cost		
At beginning of year	497,029	278,932
Additions	65,401	218,097
Disposals	(432)	-
At end of year	561,998	497,029
Accumulated amortisation and impairment		
At beginning of year	(45,473)	(37,785)
Disposals	-	-
Amortisation charge (Note 28)	(10,759)	(7,688)
At end of year	(56,232)	(45,473)
Net book amount	505,766	451,556

As at 31 December 2005, land use right with a net book value of RMB4,433,000 (2004: nil) has been pledged as securities for short-term loans (Note 21).

As at 31 December 2005, the Group is in the process of obtaining land use right certificates for certain land with an aggregate net book value of RMB126,973,000 (2004: RMB20,305,000).

7 Intangible assets

	Goodwill RMB'000	Trademark RMB'000	Proprietary technology RMB'000	Software RMB'000	Total RMB'000
Year ended 31 December 2004					
Opening net book amount	64,429	27,986	21,383	4,509	118,307
Additions	73,043	-	228	2,556	75,827
Amortisation charge (Note 28)	(6,635)	(2,451)	(6,840)	(1,155)	(17,081)
Other transfer out	(416)	-	-	-	(416)
Closing net book amount	130,421	25,535	14,771	5,910	176,637
At 31 December 2004					
Cost	130,421	33,502	38,715	8,114	210,752
Accumulated amortisation	-	(7,967)	(23,944)	(2,204)	(34,115)
Net book amount	130,421	25,535	14,771	5,910	176,637
Year ended 31 December 2005					
Opening net book amount	130,421	25,535	14,771	5,910	176,637
Additions	1,762	-	7,430	5,117	14,309
Amortisation charge (Note 28)	-	(2,451)	(5,749)	(2,627)	(10,827)
Impairment charge (Note 28)	(75,442)	-	-	-	(75,442)
Closing net book amount	56,741	23,084	16,452	8,400	104,677
At 31 December 2005					
Cost	132,183	33,502	46,145	13,231	225,061
Accumulated amortisation	-	(10,418)	(29,693)	(4,831)	(44,942)
Impairment charge	(75,442)	-	-	-	(75,442)
Net book amount	56,741	23,084	16,452	8,400	104,677

Intangible assets represent goodwill arising principally from acquisition of subsidiaries and jointly controlled entities, trademark of "Chana" and proprietary technology for the manufacturing of advanced model of the "Alto" mini-sedan and "Changan Star" automobile and softwares.

Amortisation expense of RMB10,827,000 (2004: RMB17,081,000) has all been charged in administrative expenses (Note 28).

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7 Intangible assets (continued)

For the purposes of impairment testing, goodwill has been allocated to three individual cash generating units (hereafter refer to as "CGU") which comprise of two subsidiaries, Hebei Changan Automobile Co., Ltd. (hereafter refer to as "Hebei Changan") and Nanjing Changan Automobile Co., Ltd. (hereafter refer to as "Nanjing Changan"), and one jointly controlled entity, Changan Ford Automobile Co., Ltd. (hereafter refer to as "Changan Ford").

The recoverable amount of the goodwill is determined based on value-in-use calculations and certain similar key assumptions. Value in use calculations use cash flow projections based on financial budgets approved by the management covering a five-year period, and an average discount rate ranging from 10% to 11%. Cash flow beyond the five-year period is extrapolated using the estimated growth rates. Cash flow projections during the budget period for the CGU are based on the expected gross margins during the budget period. Budgeted gross margins have been determined based on past performance and management's expectations for the market development.

During the year ended 31 December 2005, the management of the Group determines that the goodwill in relation to Nanjing Changan cannot be recovered and therefore an impairment provision of RMB75,442,000 was recognized. The management of the Group also determines that there is no impairment for goodwill in relation to Hebei Changan and Changan Ford.

8 Investments in associates

	2005 RMB'000	2004 RMB'000
At beginning of year	4,500	4,500
Addition	1,256,806	-
Share of results (Note 35)	89,166	-
At end of year	1,350,472	4,500

The Group's associates include Chongqing Changan Information Technology Co., Ltd. (hereafter referred to as "Changan Information Technology"), and Jiangling Motors Corporation, Ltd. (hereafter referred to as "Jiangling Motors" and who has primary listing in the Shenzhen Stock Exchange).

Jiangxi Jiangling Holding Co., Ltd. (hereafter referred to as "Jiangling Holding") is a subsidiary of the Company established by the Company and Jiangling Automobile Group Co., Ltd. (hereafter referred to as "Jiangling Group"). In 2005, the Company injected cash of RMB450,000,000 into Jiangling Holding as further capital injection. Meanwhile, Jianging Group injected its 354,176,000 shares in Jiangling Motors (representing 41.03% of total ordinary shares of Jiangling Motors) and certain liabilities with an aggregate consideration of RMB450,000,000 into Jiangling Holding as further capital injection. As at 31 December 2005, the above further capital injection had been finalised and thereafter, Jiangling Holding has 41.03% shares in Jiangling Motors which becomes an associate of the Group.

As at 31 December 2005, investments in associates include goodwill of RMB134,657,000 arising from acquisition of Jiangling Motors (2004: nil). The recoverable amount of the goodwill is determined based on the same calculation method described in Note 7. During the year ended 31 December 2005, the management of the Group determines that there is no impairment for Jiangling Motors containing goodwill.

The Group's share of the results of its associates and its share of the assets and liabilities are as follows:

Name	Country of incorporation	Assets	Liabilities	Revenues	Profit	%interest held

		RMB'000	RMB'000	RMB'000	RMB'000	
2004						
Changan Information Technology	The PRC	8,786	4,286	16,460	-	21.43%
2005						
Changan Information Technology	The PRC	11,274	6,164	17,793	610	21.43%
Jiangling Motors	The PRC	2,006,029	747,154	2,576,945	88,556	41.03%
		2,017,303	753,318	2,594,738	89,166	

9 Available-for-sale financial assets

	2005 RMB'000	2004 RMB'000
Cost		
Beginning of the year	61,800	56,900
Additions	81,809	4,900
Deduction	(4,000)	-
End of the year	139,609	61,800
Impairment charge		
Beginning of the year	(40,020)	(12,102)
Impairment charge (Note 28)	-	(27,918)
End of the year	(40,020)	(40,020)
Net book amount	99,589	21,780

Available-for-sale financial assets are non-current assets, including equity investments in the following unlisted companies:

	2005 RMB'000	2004 RMB'000
South-western Securities Co., Ltd.	50,000	50,000
Chongqing International Golf Club Co., Ltd.	4,900	4,900
Chongqing Baoteman Biotechnology Co., Ltd.	-	3,000
Chongqing Certification Authority Co., Ltd.	-	1,000
Chongqing Changan Jinling Vehicles Parts Co., Ltd.	2,900	2,900
China South Industry Group Finance Co., Ltd.	80,000	-
Sichuan Glass Co., Ltd.	1,809	-
	139,609	61,800
Less: Impairment provision	(40,020)	(40,020)
Total	99,589	21,780

All of the Group's available-for-sale investments represent investments in unlisted companies, which do not have quoted market price in an active market and for which other methods of reasonably estimating fair value are clearly unworkable. Accordingly, these investments are carried at cost less accumulated impairment losses.

South-western Securities Co., Ltd. (hereafter referred to as "South-western Securities"), is a limited liability company established in the PRC as approved by the China Securities Regulatory Commission. The business of South-western Securities includes purchases and sales of securities, securities underwriting, and investment consulting. The Group holds 3.07% equity interest in South-western Securities. As at 31 December 2005, an impairment provision of RMB40,020,000 has been made.

Directors are of the opinion that the underlying value of the investments is not less than their carrying value as at 31 December 2005.

10

Other non-current assets

	2005	***2004***
	RMB'000	*RMB'000*
Long-term receivable (Note a)	***136,290***	***-***
Long-term deferred assets (Note b)	***4,978***	***3,982***
	141,268	***3,982***

Notes:

(a) As at 31 December 2005, long-term receivables comprise:

(i) Prepayment of RMB120,877,000 to Jiangling Group and its subsidiary in relation to the acquisition of Nanchang Jiangling Lufeng Automobile Co., Ltd. As at 31 December 2005, such acquisition has not been finalised and such prepayment is recognised as other non-current assets.

(ii) Prepayment of RMB15,413,000 to Suzuki Motor Corporation, a joint venture partner of Chongqing Changan Suzuki Automobile Co., Ltd. (hereafter to refer to as "Changan Suzuki"), in relation to the acquisition of new technical know-how. As at 31 December 2005, Changan Suzuki has not obtained the related technical know-how and the prepayment is recognised as other non-current assets.

(b) Movement of long-term deferred assets is as follows:

	RMB'000
Year ended 31 December 2004	
Opening net book amount	5,239
Additions	1,941
Amortisation charge (Note 28)	(3,131)
Disposal	(67)
Closing net book amount	3,982
At 31 December 2004	
Cost	17,525

Accumulated amortisation	(13,543)
Net book amount	3,982
Year ended 31 December 2005	
Opening net book amount	3,982
Additions	2,619
Amortisation charge (Note 28)	(1,591)
Other deduction	(32)
Closing net book amount	4,978
At 31 December 2005	
Cost	15,610
Accumulated amortisation	(10,632)
Net book amount	4,978

11 Deferred income tax

Deferred income taxes are calculated in full on temporary differences under the liability method. Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income taxes relate to the same fiscal authority.

(1) Deferred income tax assets

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

	2005 RMB'000	**2004 RMB'000**
At beginning of year	97,410	100,447
Income statement credit/(charge)	103,795	(3,037)
At end of year	201,205	97,410

Deferred income tax assets	**Provisions and accruals RMB'000**	**Impairment provision RMB'000**	**Others RMB'000**	**Total RMB'000**
At 1 January 2004	75,362	23,914	1,171	100,447
Income statement (charge)/credit	(4,639)	(824)	2,426	(3,037)
At 31 December 2004	70,723	23,090	3,597	97,410
At 1 January 2005	70,723	23,090	3,597	97,410
Income statement credit	98,679	4,825	291	103,795
At 31 December 2005	169,402	27,915	3,888	201,205

The amounts shown in the balance sheet include the following:

	2005 RMB'000	**2004 RMB'000**
Deferred income tax assets:		
– Deferred income tax assets to be recovered within 12 months	189,832	83,508
– Deferred income tax assets to be recovered after more than 12 months	11,373	13,902
	201,205	97,410

11 Deferred income tax (continued)

(2) Deferred income tax liabilities

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

	2005 RMB'000	2004 RMB'000
At beginning of year	-	-
Income statement charge	15,633	-
Attributable to acquisition of an associate	56,220	-
At end of year	71,853	-

Deferred income tax liabilities arose from taxable temporary difference due to the existence of undistributed profit in Jiangling Motors. According to PRC tax regulation, dividends obtained from Jiangling Motors are subject to payment of additional PRC enterprise income tax (hereafter refer to as "EIT") since Jiangling Holding and Jiangling Motors are subject to different EIT rates.

Deferred income tax liabilities generated from undistributed profit of Jiangling Motors as at the acquisition date was regarded as part of acquisition cost and thereby was included in investment in associate.

The amounts shown in the balance sheet include the following:

	2005 RMB'000	2004 RMB'000
Deferred income tax liabilities:		
– Deferred income tax liabilities to be recovered within 12 months	38,176	-
– Deferred income tax liabilities to be recovered after more than 12 months	33,677	-
	71,853	-

12 *Inventories*

	2005 RMB'000	2004 RMB'000
Raw materials (at net realisable value)	1,172,633	942,554
Work in progress (at cost)	127,734	83,577
Finished goods (at net realisable value)	2,546,940	1,980,733
Consumables (at cost)	36,361	36,708
	3,883,668	3,043,572

The cost of inventories recognised as expense and included in "cost of goods sold" amounted to RMB15,978,263,000 (2004: RMB14,423,871,000).

The Group has recognised a provision of RMB38,600,000 (2004: RMB11,725,000) for the impairment of inventory and reversed RMB12,085,000 (2004: RMB6,402,000) of a previous provision when the corresponding inventories were sold or used. The amount provided and reversed has been included in cost of goods sold in the income statement (Note 28).

As at 31 December 2005, certificates of vehicles with an aggregate net book value of RMB39,319,000 (2004: nil) have been pledged as securities for short-term loans (Note 21).

13 *Trade and other receivables*

	2005 RMB'000	2004 RMB'000
Trade receivables	706,620	417,689
Less : provision for impairment of trade receivables	(110,866)	(115,306)
Trade receivables – net	595,754	302,383
Notes receivables	1,414,318	1,175,940
Prepayments	281,630	234,939
Other receivables	384,365	104,211
Less : provision for impairment of other receivables	(2,729)	(3,236)
	2,673,338	1,814,237

The fair value of trade and other receivables approximates their net carrying values.

There is no concentration of credit risk with respect to trade receivables, as the Group has a large number of customers, nationally dispersed.

The Group has recognised a provision of RMB8,902,000 for the impairment of receivables during the year ended 31 December 2005 (2004: reversal of RMB11,512,000 for the impairment of receivables). The provision for/reversal of the impairment of receivables has been included in administrative expenses (Note 28).

Receivables and prepayment to related parties are disclosed in Note 36.

14 Held-to-maturity investments

As at 31 December 2004, held-to-maturity investments comprise marketable securities of RMB247,298,000 with fixed maturity within 12 months from the balance sheet date. As at 31 December 2005, there is no held-to-maturity investment.

As at 31 December 2004, marketable securities of RMB74,866,000 are of original maturity less than three months and are included in cash and cash equivalents for the purpose of the cash flow statement (Note 17). As at 31 December 2005, there is no marketable security of original maturity less than three months.

15 Other financial assets at fair value through profit or loss

As at 31 December 2004, the Group has marketable securities of RMB219,254,000 that were acquired principally for the purpose of generating a profit from short-term fluctuations in price. Trading investments are stated at fair value at the close of business at year end. As at 31 December 2005, there is no other financial asset at fair value through profit or loss.

16 Restricted Cash

As at 31 December 2005, RMB86,650,000 of cash is pledged for obtaining bank borrowings and issuing bank acceptance notes and bank guarantees (2004: RMB157,952,000).

17 Cash and cash equivalents

	2005 RMB'000	2004 RMB'000
Cash at bank and in hand	3,699,577	3,850,915

As at 31 December 2005, the Company has deposits of RMB5,022,000 (2004: RMB382,077,000) with North Industry Group Finance Co., Ltd. The interest rates range from 0.72% to 1.44% per annum (2004: 1.44%). North Industry Group Finance Co., Ltd., a non-bank financial institution, is an associate of the ultimate parent of the Company.

For the purpose of the cash flow statement, cash and cash equivalents comprise the following:

	2005 RMB'000	2004 RMB'000
Cash at bank and in hand	3,699,577	3,850,915
Add: Other financial assets at fair value through profit or loss (Note 15)	-	219,254
Held-to-maturity investments with original maturity less than three months (Note 14)	-	74,866
Cash and cash equivalents in the cash flow statement	3,699,577	4,145,035

18 Share capital

	Non-tradable		Tradable		
Number of shares (in thousands)	Domestic legal entity shares RMB'000	Internal employee shares RMB'000	"A" shares RMB'000	"B" shares RMB'000	Total RMB'000
Year ended 31 December 2004					
Balance at 1 January 2004	708,666	21	167,979	350,000	1,226,666
Bonus shares	141,733	4	33,596	70,000	245,333
Issue of shares	-	2	148,848	-	148,850
Balance at 31 December 2004	850,399	27	350,423	420,000	1,620,849
Year ended 31 December 2005					
Balance at 1 January and 31 December 2005	850,399	27	350,423	420,000	1,620,849

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

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

Upon established as a joint stock limited company on 31 October 1996, the Company issued 506,190,000 shares to its sole sponsor CAC in exchange for the operating net assets and related assets of the mini-automobile and engine equipment manufacturing lines. In addition, the Company issued 250,000,000 "B" shares to overseas investors, resulting in an aggregate share capital of RMB756,190,000 on the date of establishment.

On 19 May 1997, with the approval of China Securities Regulatory Commission, the Company issued 120,000,000 "A" shares to domestic public investors, thereby increasing the total share capital to RMB876,190,000.

On 26 June 1998, the Company issued bonus shares on the basis of 4 shares for each 10 shares to the existing 876,190,000 shares in issue as at 31 December 1997. The bonus shares were issued as a distribution from the share premium account. As a result, RMB350,476,000 was transferred from the share premium account to share capital, thereby increasing the share capital to RMB1,226,666,000.

On 26 May 2004, the Company issued bonus shares on the basis of 2 shares for each 10 shares to the existing 1,226,666,000 shares in issue as at 31 December 2003. The bonus shares were issued as a distribution from the retained earnings account. As a result, RMB245,333,000 was transferred from the retained earning account to share capital, thereby increasing the share capital to RMB1,471,999,000.

On 26 August 2004, with the approval of China Securities Regulatory Commission, the Company issued 148,850,000 "A" shares of RMB1 each to domestic public investors at RMB7.39 per share, thereby increasing the total share capital to RMB1,620,849,000 and resulting in a share premium of RMB909,730,000 (Note 19).

19 Share premium

Year ended 31 December 2004	RMB'000
Balance at 1 January 2004	833,438
Issue of shares	909,730
Balance at 31 December 2004	1,743,168
Year ended 31 December 2005	
Balance at 1 January and 31 December 2005	1,743,168

20 *Other reserves*

	Statutory common reserve fund RMB'000	Statutory public welfare fund RMB'000	Reserve fund RMB'000	Enterprise expansion fund RMB'000	Total RMB'000
Year ended 31 December 2004					
Balance at 1 January 2004	319,123	319,105	307,020	108,630	1,053,878
Transfers	135,180	134,428	100,470	27,540	397,618
Balance at 31 December 2004	454,303	453,533	407,490	136,170	1,451,496
Year ended 31 December 2005					
Balance at 1 January 2005	454,303	453,533	407,490	136,170	1,451,496
Transfers	26,902	23,712	40,800	11,220	102,634
Balance at 31 December 2005	481,205	477,245	448,290	147,390	1,554,130

Statutory common reserve fund

According to the relevant articles of association, the Company and all domestically invested subsidiaries are required to transfer 10% of their net profit (as determined under relevant PRC regulations) to the statutory common reserve fund until the reserve balance reaches 50% of the registered capital.

The statutory common reserve fund can be used to offset previous years' losses, if any, and may be converted into share capital by the issuance of new shares to the shareholders in proportion to their existing shareholdings. The transfer to this reserve must be made before the distribution of dividends to the shareholders. This reserve is un-distributable other than upon the liquidation of the companies.

Statutory public welfare fund

According to the relevant articles of association, the Company and all domestically invested subsidiaries are required to transfer 5% to 10% of their net profit (as determined under relevant PRC regulations) to the statutory public welfare fund.

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

According to the revised Company Law effective on 1 January 2006 and circular Caiqi [2006] No.67 issued by the Ministry of Finance on 15 March 2006, no appropriation of statutory public welfare fund is required as to the domestically invested subsidiaries of the Company since 2006.

Reserve fund

According to the board resolution of Changan Suzuki, RMB80,000,000 was appropriated to reserve fund from its distributable profits as at 31 December 2005. The Company's proportionate interest in this profit appropriation of RMB40,800,000 is recognised in 2005 consolidated financial statements of the Group.

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

Enterprise expansion fund

According to the resolution of Changan Suzuki, RMB22,000,000 was appropriated to enterprise expansion fund from its distributable profits at 31 December 2005. The Company's proportionate interest of RMB11,220,000 is recognised in 2005 consolidated financial statements of the Group.

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

21 Borrowings

	2005 RMB'000	2004 RMB'000
Current		
Bank borrowings		
- unsecured	952,787	490,943
- secured	126,150	33,000
	1,078,937	523,943
Non-current		
Bank borrowings		
- unsecured	121,139	-
- secured	842,900	535,000
	964,039	535,000
Total borrowings	2,042,976	1,058,943

The fair value of borrowings approximates their carrying values.

Current bank loans bear interest at rates ranging from 4.22% to 5.58% per annum (2004: 2.77% to 5.48%). RMB88,000,000 (2004: RMB33,000,000) of such loans were secured by buildings with net book value of RMB29,549,000 and land use rights with net book value RMB4,433,000 (2004: buildings with net book value of RMB12,990,000) (Note 5 and Note 6). RMB38,150,000 of such loans were secured by certificates of vehicles with net book value RMB39,319,000 (2004: nil) and it is borrowed from North Industry Group Finance Co., Ltd. (Note 12).

Non-current bank loans bear interest at rates ranging from 5.02% to 6.12% per annum (2004: 5.58% to 5.85%) and RMB842,900,000 (2004: RMB 535,000,000) of such loans were guaranteed by CAC and secured by cash at bank of RMB300,000 (2004: RMB17,500,000).

Maturity of non-current borrowings is as follows:

	2005 RMB'000	**2004 RMB'000**
Between 3 and 4 years	199,039	100,000
Between 4 and 5 years	665,000	280,000
Over 5 years	100,000	155,000
	964,039	535,000

The Group has the following undrawn borrowing facilities:

	2005 RMB'000	**2004 RMB'000**
Floating rate		
- expiring beyond one year	357,100	665,000

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

	2005 RMB'000	**2004 RMB'000**
RMB	1,659,371	686,500
US Dollar	383,605	372,443
	2,042,976	1,058,943

22 Retirement benefit obligations

	2005 RMB'000	**2004 RMB'000**
At beginning of year	25,169	23,751
Interest cost	812	1,009
Actuarial loss	2,294	4,106
Payments	(3,142)	(3,697)
At end of year	25,133	25,169

	2005 RMB'000	**2004 RMB'000**
Current (included in other payables)	2,443	3,193
Non-current	22,690	21,976
	25,133	25,169

In addition to monthly contributions to various defined contribution retirement schemes managed by the PRC government, the Group provided supplementary pension subsidies to certain qualified employees. Such pension obligations were actuarially recorded using the projected unit credit method and the material actuarial assumptions used in valuing these obligations are as follows:

a. Discount rate adopted: 3.6% for normal retiree and 2.25% for early retiree;

b. Mortality: 80% of average life expectancy of residents in the PRC.

Interest cost and actuarial loss are charged in administrative expenses.

23 Deferred income

	2005 RMB'000	2004 RMB'000
At beginning of year	369,613	-
Addition		
- Purchase of land use right by Changan Suzuki (Note a)	8,135	-
-Purchase of property, plant and equipment and land use right by the Company	-	251,809
- Purchase of land use right by Changan Ford	-	78,561
- Tax credit arising from purchase of domestically manufactured machinery and equipment	-	48,058
Amortisation charge (Note 28)	(15,974)	(8,815)
At end of year	361,774	369,613

Note a: In 2005, Changan Suzuki received a government grant of RMB9,039,000 in relation to the purchase of land use rights. After deducting the relevant tax, such government grant of RMB8,135,000 is recognised as deferred income during the year ended 31 December 2005.

24 Other non-current liabilities

In 2005, Changan Ford Mazda Engine Co., Ltd. (hereafter referred to as "Changan Ford Mazda"), a jointly controlled entity of the Company, purchased certain land use rights in Nanjing, the PRC. According to an agreement among Changan Ford Mazda, Committee of Nanjing Jiangling Economic Development District and Nanjing Jiangling Economic Development Co.,Ltd. ("the Agreement"), Changan Ford Mazda entitled and received a refund of RMB34,686,000 in 2005 on a condition that Changan Ford Mazda should not transfer or dispose the land use rights to independent third parties with a five year period. The Company's proportionate interest in such grant of RMB17,343,000 is recognised as other non-current liabilities as at 31 December 2005.

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Trade and other payables

	2005 RMB'000	2004 RMB'000
Trade payables	3,288,725	2,875,566
Notes payable	1,716,154	976,608
Other payables	1,264,874	493,136
Accrued expenses	700,786	314,182
Accrued sales compensation	269,622	237,350
Accrued payroll and welfare	93,066	87,099
Advances from customers	507,472	252,847
	7,840,699	5,236,788

Payables to related parties are disclosed in Note 36.

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Provisions for other liabilities and charges

	2005	2004
	RMB'000	RMB'000
At beginning of year	274,259	196,109
Charged for the year (Note 28)	276,119	262,605
Utilised during year	(202,867)	(184,455)
At end of year	347,511	274,259

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.

27

Sales

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

28 Expenses by nature

	2005 RMB'000	2004 RMB'000
Depreciation on property, plant and equipment (Note 5)	514,955	373,104
Amortisation of land use rights (Note 6)	10,759	7,688
Amortisation of intangible assets (Note 7)	10,827	17,081
Amortisation of deferred assets (Note 10)	1,591	3,131
(Reversal of) / Provision for impairment of property, plant and equipment (Note 5)	(1,467)	767
Employee benefit expense (Note 29)	677,072	596,170
Increase of finished goods and work in progress	(625,353)	(730,676)
Raw materials and consumables used	14,739,076	13,567,630
Transportation	739,141	764,939
Research and development costs	497,108	476,028
Advertising and promotion costs	345,422	301,051
Warranty expense (Note 26)	276,119	262,605
Royalty fee	221,656	208,719
Utilities	140,987	131,775
Repairs and maintenance expenditure on property, plant and equipment	110,060	106,273
Consultancy and technical support fees	98,806	23,516
Operating lease rentals – property and land use rights	79,338	56,589
Other taxes	22,837	18,605
Provision for slow moving and obsolete inventories (Note 12)	26,515	5,323

Provision for/(Reversal of) impairment of receivables (Note 13)	8,902	(11,512)
Net loss on disposal of property, plant and equipment (Note 35)	12,443	9,753
Provision for impairment of available-for-sale investments (Note 9)	-	27,918
Provision for impairment of goodwill (Note 7)	75,442	-
Government grants relating to costs (Note a)	(50,382)	(27,168)
Amortisation of deferred income (Note 23)	(15,974)	(8,815)
Number of employees	15,312	14,571

Note a: In 2005, the Group obtained and recognised government grants of RMB50,382,000 in relation to research and development activities (2004: RMB27,168,000).

29 Employee benefit expense

	2005 RMB'000	2004 RMB'000
Wages and salaries	498,016	439,737
Social security costs	104,064	85,178
Pension costs – defined contribution plans	71,886	66,140
Other pension costs	3,106	5,115
	677,072	596,170

The average number of employees in 2005 was 15,312 (2004: 14,571), 2,769 of whom (2004: 696) were part-time.

The employees of the Group participate in various defined contribution pension plans organised by relevant municipal and provincial governments under which the Group was required to make monthly contributions to these plans.

Other pension costs represent supplementary pension subsidies provided by the Group to certain qualified employees (Note 22).

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Other income

	2005 RMB'000	2004 RMB'000
Income on sales of materials	123,583	130,914
Interests income on bank deposits (Note 35)	62,721	56,395
Income from financial assets (Note 35)	4,664	9,275
Rental income	4,347	4,347
Interest income on overdue trade receivables	2,722	10,111
Others	17,578	25,333
	215,615	236,375

31 Finance costs

	2005	2004

	RMB'000	RMB'000
Interest expense on borrowings (Note 35)	(65,677)	(25,366)
Net foreign exchange gain	33,799	1,130
Interest expense on bank acceptance notes	(3,528)	(2,634)
Bank acceptance notes discounted charges	(11,324)	(8,287)
Others	(5,513)	(3,013)
	(52,243)	(38,170)

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Taxation

	2005 RMB'000	2004 RMB'000
Current tax charge	(57,149)	(144,951)
Deferred income tax credit/(charge)	88,162	(3,037)
	31,013	(147,988)

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

	2005 RMB'000	2004 RMB'000
Profit before tax	240,913	1,468,239
Tax calculated at the Company's tax rate of 15% (2004: 15%)	(36,137)	(220,236)
Effect of different tax rates for subsidiaries and joint ventures	3,858	59,444
Tax refunds	6,793	3,000
Additional deduction arising from research and development expenditure	28,924	25,375
Expenses not deductible for tax purposes	(44,206)	(18,261)
Income not subject to tax	92	-
Effect of different tax rates applied for the periods in which the temporary differences are expected to reverse	61,180	-
Utilisation of previously unrecognised temporary differences	10,509	2,690
Tax (credit) / charge	31,013	(147,988)

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Taxation (continued)

(a) Enterprise Income Tax ("EIT")

The Company is subject to the PRC EIT and local income tax. As the Company is qualified as a domestic enterprise in encouraged industries and approved by the relevant tax authorities, the Company is entitled to a preferential EIT rate of 15% and is exempted from local income tax.

Changan Suzuki, a subsidiary of the Company, is qualified as a foreign investment production enterprise as well as advanced technology enterprise. Accordingly, the applicable EIT rate is 15%. As approved by the tax authorities, Changan Suzuki is entitled to a two year exemption from income taxes followed by three years of a 50% tax reduction, commencing from the first cumulative profit-making year net of losses carried forward. Year 2002 was the third year of 50% tax reduction. According to Preferential Policies for Encouraging Foreign Investment issued by local government of Chongqing, Changan Suzuki is entitled to three additional years of 50% tax reduction at a minimum EIT rate of 10%. Accordingly, Changan Suzuki is subject to a preferential EIT rate of 10% for three years from 2003 to 2005.

Changan Ford, a jointly controlled entity of the Company, is qualified as a foreign investment production enterprise as well as advanced technology enterprise. Accordingly, the applicable EIT rate is 15%. As approved by the tax authorities, Changan Ford is entitled to a two year exemption from income taxes followed by three years of a 50% tax reduction, commencing from the first cumulative profit-making year net of losses carried forward. Year 2005 is the second cumulative profit-making year net of losses carried forward. Accordingly, Changan Ford is entitled to EIT exemption in 2005.

As approved by relevant tax authority in 2005, Chongqing Changan Special Automobile Co., Ltd., a subsidiary of the Company, is subject to a preferential EIT rate of 15% in 2005.

As approved by relevant tax authority, Chongqing Changan Automobile Sales Co., Ltd., a subsidiary of the Company, is entitled to a preferential EIT rate of 27% in 2005.

As approved by relevant tax authority, Chongqing Changan Service Co., Ltd. (hereafter referred to as “Changan Services”), a subisiary of the Company, is exempted for payment of EIT for the year ended 31 December 2004. Accordingly, Changan Services received a tax refund of RMB2,530,000 in 2005 and such refund was recognised by offsetting the 2005 income tax expense.

As approved by relevant tax authority in 2005, Chongqing Anfu Automobile Co., Ltd. (hereafter referred to as “Chongqing Aufu”), a subsidiary of the Company, is entitled to a 50% EIT reduction for the year ended 31 December 2004. In addition, one of the branches of Chongqing Anfu is exempted for payment of EIT for the year ended 31 December 2004. Accordingly, Chongqing Anfu received a tax refund of RMB4,263,000 in 2005 and such refund was recognised by offsetting the 2005 income tax expense.

The EIT rate for other subsidiaries of the Group is 33%.

(b) Value-Added Tax (“VAT”)

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

(c) Consumption Tax (“CT”)

The Group’s automobile sale is subject to CT at rates ranging from 3% to 8% on the selling price of goods.

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Earnings per share

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.

	2005 RMB'000	2004 RMB'000
Profit attributable to shareholders of the Company	199,309	1,197,215
Weighted average number of ordinary shares in issue (thousands)	1,620,849	1,419,394
Basic earnings per share (RMB per share)	0.12	0.84

Diluted earnings per share equals to basic earnings per share as there were no dilutive potential ordinary shares outstanding during the years ended 31 December 2005 and 2004.

34 Dividend per share

On 13 April 2006, the Board of Directors proposed a final cash dividend of RMB0.6 (relevant tax included) for every ten shares, amounting to a total of RMB97,251,000 (2004: cash dividend RMB518,672,000) for the year ended 31 December 2005. The proposed dividend distribution is subject to the shareholders' approval in their next meeting and will be recorded in the Group's financial statements for the year ended 31 December 2006.

35 Cash generated from operations

	2005 RMB'000	2004 RMB'000
Profit before tax	240,913	1,468,239
Provision for/(Reversal of) impairment of receivables (Note 28)	8,902	(11,512)
Provision for slow moving and obsolete inventories (Note 28)	26,515	5,323
(Reversal of)/Provision for impairment of property, plant and equipment (Note 28)	(1,467)	767
Provision for impairment of available-for-sale investments (Note 28)	-	27,918
Depreciation of property, plant and equipment (Note 28)	514,955	373,104
Amortisation of land use rights (Note 28)	10,759	7,688
Amortisation of intangible assets (Note 28)	10,827	17,081
Amortisation of long-term deferred assets (Note 28)	1,591	3,131
Loss on disposal of property, plant and equipment - net (Note 28)	12,443	9,753
Loss on disposal of other non-current assets	-	67
Interest expense on bank borrowings (Note 31)	65,677	25,366
Interest income on bank deposits (Note 30)	(62,721)	(56,395)
Income from financial assets (Note 30)	(4,664)	(9,275)
Share of results of associates (Note 8)	(89,166)	-
Amortisation of deferred income (Note 28)	(15,974)	(8,815)
Provision for impairment of goodwill (Note 28)	75,442	-
Negative goodwill	-	(810)
Changes in working capital:		
Increase in inventories	(866,610)	(1,021,727)
Increase in operating receivables	(1,029,921)	(45,576)
Increase in operating payables	2,514,763	845,422
Cash generated from operations	1,412,264	1,629,749

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

	2005 RMB'000	2004 RMB'000
Net book amount of property, plant and equipment disposed (Note 5)	55,204	55,093
Less: Net loss on disposal of property, plant and equipment (Note 28)	(12,443)	(9,753)
Increase of receivables	(31,956)	(28,085)
Proceeds from dispose of property, plant and equipment	10,805	17,255

36 *Related party transactions*

During the year ended 31 December 2005, as part of the group reorganisation, China South Industries Group Corp. (hereafter referred to as "CSIG", a state-owned enterprise incorporated in the PRC and is the ultimate parent of the Company) injected 52.47% of the Company's share from CAC (a wholly-owned subsidiary of CSIG) into China South Industry Automobile Co. Ltd. (hereafter referred to as "CSIA"; a new established joint stock limited company). As at 31 December 2005, such share transfer ("the Share Transfer") has been approved by relevant government authorities and CSIA has been established. Since then, CSIA becomes the immediate parent of the Company. The Share Transfer is completed on 30 March 2006.

The remaining 47.53% of the Company's shares are widely held.

Related parties refer to entities in which CSIG has the ability, directly or indirectly, to control the other party or exercise significant influence over the other party in making financial and operating decisions. Given that the PRC government still owns a significant portion of the productive assets in the PRC despite the continuous reform of the governments structure, the majority of the Group's business activities had been conducted with enterprises directly or indirectly owned or controlled by the PRC government ("state-owned enterprises") in the ordinary course of business. In accordance with the revised IAS 24, "Related Party Disclosures", state-owned enterprises and their subsidiaries, other than entities under CSIG (also a state-owned enterprise), directly or indirectly controlled by the PRC government are also defined as related parties of the Group. Neither CSIG nor the PRC government has published financial statements.

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 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 Manufacturing 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 Jiangchuan Machinery Factory	Subsidiary of CSIG

Chongqing Jiangchao Engine Industry Co., Ltd.	Subsidiary of CSIG
Chongqing Changan Minsheng Logistics Co., Ltd.	Subsidiary of CSIG
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 Haitai Property Management 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

Related parties' name	Relationship
Chongqing Hongyu Precision Industries Co., Ltd.	Subsidiary of CSIG
Sichuan Jianan North Automobile Bridge 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
Chongqing Changan Design Academy	Subsidiary of CSIG
Sichuan Jianan Industry Co., Ltd.	Subsidiary of CSIG
Chongqing Xinlihua Spare Parts Co., Ltd.	Subsidiary of CSIG

The following transactions are entered into at terms agreed with corresponding related parties in the ordinary course of business with reference to those entered into with other independent third parties, where applicable.

(1) Sales of goods and services

	2005 RMB'000	**2004 RMB'000**
Sales of goods (excluding VAT):		
Jointly controlled entity (Note a)	12,714	33,758
Subsidiary of CSIA	107,810	59,929
Subsidiaries of CSIG	1,199,325	1,110,117
Other state-owned enterprises	706,047	439,590

Rental income:		
Subsidiary of CSIG	4,347	4,347

Note a: The transaction with jointly controlled entity shown above is after elimination of the Company's proportionate interests in them.

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Related party transactions (continued)

(2)

Purchases of goods and services (continued)

(2)

Purchases of goods and services

	2005 RMB'000	2004 RMB'000
Purchase of goods (excluding VAT):		
Jointly controlled entity (Note a)	163,276	142,960
Subsidiaries of CSIA	536,920	522,853
Subsidiaries of CSIG	1,927,903	1,864,470
Other state-owned enterprises	1,767,594	1,498,495
Purchase of property, plant and equipment		
Associate of the Company	41,227	15,586
Subsidiaries of CSIG	297,705	264,440
Other state-owned enterprises	6,590	86

Note a: The transaction with jointly controlled entity shown above is after elimination of the Company's proportionate interests in them.

(3) **Other transactions**

	2005 RMB'000	2004 RMB'000
Jointly controlled entity (Note a)		
-- Consultancy and technical support service	9,879	-
Subsidiaries of CSIG		
--Logistic service fee:	721,638	619,718
--Technology service fee	36,277	31,690
--Sales of properties, plant and equipment	20,872	4,460
--Property management fee	7,756	7,430
--Loan interest expense	1,789	2,035
--Miscellaneous expense	3,932	598
--Purchase of properties, plant and equipment	-	2,338
--Purchase of land use right	-	12,627
--Acquisition of subsidiaries	-	2,470
--Borrowing	-	95,000
--Repayment of borrowing	75,000	20,000
--Trademark fee	13,416	13,035
--Lease of land use right	6,077	4,052
--Building rental fee	16,618	16,618
--Water and electricity fee	76,781	108,366
--Welfare	38,432	32,876
--Telephone charges	1,398	1,829
--Education fee	6,950	7,211
--Security and fire fighting fee	8,834	9,473
--Labours' union fee	5,690	4,813

--Others	7,679	7,662

Note a: The transaction with jointly controlled entity shown above is after elimination of the Company's proportionate interests in them.

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Related party transactions (continued)

(3) Other transactions (continued)

	2005 RMB'000	**2004 RMB'000**
Other state-owned enterprises		
--Advertisement expense	16,493	12,049
--Interest income	58,458	53,816
--Interest expenses	65,268	25,366
--Borrowings	1,747,766	816,270
--Repayment of borrowings	1,399,054	355,086

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

	2005 RMB'000	**2004 RMB'000**
Receivables from related parties:		
Jointly controlled entities (Note a)	12,348	1,000
Subsidiaries of CSIG	161,610	85,794
Other state-owned enterprises	1,416,728	1,081,255
	1,590,686	1,168,049
Prepayments to related parties:		
Jointly controlled entity (Note a)	2,880	-
Subsidiaries of CSIG	-	15,133
Other state-owned enterprises	319,184	142,637
	322,064	157,770

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

	2005 RMB'000	**2004 RMB'000**
Payables to related parties:		
Associate of the Company	18,200	5,588
Jointly controlled entity (Note a)	3,144	2,860
Subsidiaries of CSIA	32,749	3,393
Subsidiaries of CSIG	559,378	393,900
Other state-owned enterprises	1,771,211	1,146,670
	2,384,682	1,552,411
Loans from related parties:		
Subsidiaries of CSIG	-	75,000

Other state-owned enterprises	2,017,975	983,943
	2,017,975	1,058,943

Deposits in related parties:

Other state-owned enterprises	3,393,285	3,544,903

Note a: The balances with jointly controlled entities shown above are after elimination of the Company's proportionate interests in them.

(5) Directors' remuneration

In 2005, the total remuneration of the directors was RMB2,922,000 (2004: RMB800,000).

(6) Others

CAC, a subsidiary of CSIG, has provided a guarantee for the Company to obtain bank borrowings of RMB842,900,000 (2004: RMB535,000,000) (Note 21).

37 **Principal subsidiaries**

Details of the Company's subsidiaries are as follows:

Entity	**Equity interest (%)** **2004**	**2005**	*Country of incorporation*	*Principal activities*
Chongqing Changan Automobile Import and Export Co., Ltd. ("Changan Import and Export")	95	95	PRC	Import and export, sale of automobiles and spare parts
Chongqing Changan Automobile Sales Co., Ltd. ("Changan Sales")	100	100	PRC	Sale of automobiles, engines and spare parts
Chongqing Changan Suzuki Automobile Co., Ltd.	51	51	PRC	Manufacture and sale of automobiles and spare parts
Nanjing Changan Automobile Co., Ltd. ("Nanjing Changan")	71.05	71.86	PRC	Manufacture and sale of mini automobiles and spare parts
Hebei Changan Automobile Co., Ltd. ("Hebei Changan")	66.51	77.27	PRC	Manufacture and sale of auto-mobiles and spare parts
Chongqing Anfu Automobile Co., Ltd. ("Chongqing Anfu")	50	50	PRC	Sale of automobiles and spare parts
Chongqing Changan Special Automobile Co., Ltd. ("Changan Special")	50	50	PRC	Sale of special automobiles and spare parts, automobile repair
Chongqing Changan Service Co., Ltd.	99	99	PRC	Sale of automobiles and spare parts
Jiangxi Jiangling Holding Co., Ltd. ("Jiangling Holding")	50	50	PRC	Investment, foreign trading
Shantou Lufeng Automobile Sales Co., Ltd.	70	70	PRC	Sale of automobiles and related products
Sales Companies	80-100	80-100	PRC	Sale of automobiles and spare parts

The Company is considered to have effective control in Chongqing Anfu, Changan Special and Jiangling Holding as the Company has the power to govern their financial and operating policies.

38 Interest in a jointly controlled entities

Details of the Company's jointly controlled entities are as follows:

Entity	Equity interest (%) 2004	Equity interest (%) 2005	Country of incorporation	Principal activities
Changan Ford	50	50	PRC	Manufacture and sale of automobiles and spare parts
Changan Ford Mazda	50	50	PRC	Manufacture and sale of automobile engines

Changan Ford Mazda and Changan Ford are the Company's jointly controlled entities because their strategic, operating, investing and financing activities are jointly controlled by the Company and the other joint venture partners. The Company's profit and loss sharing from the jointly controlled entities correspond to its equity interest percentage. The following amounts represent the Group's 50% share of the assets and liabilities and sales and results of the jointly controlled entities which have been included in the consolidated balance sheet and income statement:

	2005 RMB'000	2004 RMB'000
Assets:		
Property, plant and equipment	1,224,829	528,892
Land use right	186,590	161,129
Deferred income tax assets	57,940	3,598
Current assets	2,373,724	1,279,685
	3,843,083	1,973,304
Liabilities:		
Deferred income	(77,383)	(78,561)
Short term borrowings	(383,605)	(372,443)
Provisions	(87,913)	(54,055)
Other current liabilities	(2,253,181)	(758,577)
Other non-current liabilities	(17,343)	-
	(2,819,425)	(1,263,636)
Net assets	1,023,658	709,668
Sales	4,411,408	3,633,418
Profit from operations	63,029	375,324
Profit after income tax	143,758	376,558
Proportionate interest in jointly controlled entities' commitments as at 31 December 2005	341,932	120,670

There are no contingent liabilities relating to the Group's interest in the jointly controlled entities.

The average number of employees in the jointly controlled entities in 2005 was 3,284 (2004: 2,093).

39 *Commitments*

(1) *Capital commitments*

Capital expenditure contracted for at the balance sheet date but not yet incurred is as follows:

	2005	**2004**
	RMB'000	**RMB'000**
Property, plant and equipment	1,003,433	819,402
Land use right	2,035	49,082
	1,005,468	868,484

(2) *Operating commitments*

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

	2005	**2004**
Lease of buildings		
	RMB'000	**RMB'000**
Not later than 1 year	19,873	19,855
Later than 1 year and not later than 5 years	72,005	74,097
Later than 5 years	36,005	36,006
	127,883	129,958
Lease of land use rights		
Not later than 1 year	6,463	4,438
Later than 1 year and not later than 5 years	25,853	17,750
Later than 5 years	13,066	13,795
	45,382	35,983

(3) Others

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

	2005	**2004**
	RMB'000	**RMB'000**
Production technology development		
Not later than 1 year	109,751	177,345

Later than 1 year and not later than 5 years	18,939	8,657
	128,690	186,002

ERP project contract

Not later than 1 year	-	4,593

40 Events after the balance sheet date

Apart from dividend distribution as disclosed in Note 34, the following events occurred subsequent to 31 December 2005:

(1) As at 5 January 2006, according to the profit appropriation scheme of Jiangling Motors, the Group will receive cash dividend amounting to RMB127,149,000 from Jiangling Motors.

As at 16 January 2006, the shareholders of the Jiangling Motors have approved the share reform scheme in which the Group is obliged to pay a cash consideration of RMB142,568,000 to the tradable A-share shareholders of Jiangling Motors, as well as RMB2,415,000 on behalf of the other non-tradable A-share shareholders who did not provide definite opinion in approving this share reform scheme in the shareholders' meeting. Approved by relevant local government, this share reform scheme came into effect on 14 February 2006 and the cash consideration has been paid to the tradable A-share shareholders then by the Group.

According to the approved share reform scheme, the 41.03% shares in Jiangling Motors as held by the Group are restricted from trading during a 12 months period commencing from 15 February 2006.

(2) In March 2006, the Company issued one year short-term bonds, amounting to RMB500,000,000 and the interest rate is 3.21% per annum.

(3) As at 20 March 2006, the Company announced the proposed share reform scheme in which it is proposed that the tradable A-share shareholders of the Company would entitle 3.2 shares for every 10 shares. After the approval of this proposed share reform scheme, CSIA's interests in the Company will be decreased from 52.47% to 45.55%. This proposed share reform scheme will be subject to approval from the Company's shareholders and relevant government authorities. As at the date of this report, this proposed share reform scheme has not bee finalised.

(4) According to the resolution of Board of Directors of the Company dated 13 April 2006, the Company will inject additional capital of US$87,500,000 in Changan Ford. Other joint venture partners of Changan Ford will also inject additional capital in Changan Ford according to their percentages of equity interests in Changan Ford. After the additional capital injection, the Company's equity interest percentage in Changan Ford will remain unchanged.

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

		Net assets attributable to the Company's equity holders RMB'000	Net profit attributable to the Company's equity holders RMB'000
	As reported in the accounts of the Group under PRC accounting regulations	6,731,717	236,750
1.	Staff and workers' bonus and welfare fund charged to income statement	-	(15,380)
2.	Reversal of revaluation made in 1995	(14,597)	859
3.	Deferred income tax	178,729	88,175
4.	Government grants relating to assets	(243,660)	11,881
5	Government grants relating to income	-	45,671
6.	Tax credit arising from purchase of domestically manufactured machinery and equipment	(37,824)	3,836
7.	Reversal of amortisation of goodwill	9,421	9,421
8.	Pre-operating expense of Changan Ford Mazda and new branch of Changan Ford	(105,474)	(105,474)
9.	Provision for impairment of goodwill	(75,442)	(75,442)
10.	Liabilities not to be settled	-	2,857
11.	Difference in share of result of associates	(3,918)	(3,918)
12.	Others	1,185	73
	As restated in conformity with IFRS	6,440,137	199,309

XXI. Documents for inspection

1. Financial statements with signatures and stamps of the legal representative, the head of the accounting and the head of accounting departments.
2. The original copy of audit report with the stamp of the CPA firm and the signature and stamp of the Certified Public Accountant.
3. All the original documents and manuscripts of the Company which has been disclosed in the reporting period in the newspapers designated by China Securities Regulatory Commission.
4. Annual reports published in other securities markets.

Chairman of the Board of Directors: Mr. Yin Jiaxu
General Manager: Mr. Zhang Baoling
Chongqing Changan Automobile Company Limited
15 April 2006