

**Chongqing Changan Automobile Company Limited**



**Chongqing Changan Automobile Company Limited**

**Semi-Annual Report 2007**

**(Share B)**

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## **I. Important notes and contents:**

### **Important notes**

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

No director, supervisors and senior management have raised any disagreement with regard to the truthfulness, accuracy and completeness of the report.

Chairman Mr. Yin Jiaxu, Directors Mr. Deng Tengjiang, Mr. Wang Tingwei, Mr. Deng Zhiyou, Mr. Wang Chongsheng, Independent Director Mr. Guo Konghui, Mr. Wen Zongyu, Mr. Xia Donglin were absent due to business. Chairman Mr. Yin Jiaxu entrusts Vice Chairman Mr. Xu Liuping, Directors Mr. Deng Tengjiang and Mr. Wang Tingwei entrust Director Mr. Cui Yunjiang, Mr. Deng Zhiyou entrust Director Mr. Zhang Baolin, Independent Director Mr. Guo Konghui entrusts Independent Director Mr. Gao Zhikai and Mr. Wen Zongyu entrusts Mr. Liu Wei to participate the meeting and take a vote.

The financial report in this reporting period is unaudited.

Chairman Mr. Yin Jiaxu, General Manager Mr. Zhang Baolin, Chief Accountant Mr. Cui Yunjiang, and the Chief of Accountant department, Madam Chen Ltao, herein guarantee: guarantee the truthfulness and completeness of the financial statements of this semi-annual report.

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

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## II. General Introduction to the Company

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

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

2. Place of listing: Shenzhen Stock Exchange

Abbreviated name of the stock: Changan Automobile Changan B

Stock Code: 000625 200625

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

Post code: 400023

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

Post code: 400023

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

Email Address of the Company: [cazqc@changan.com.cn](mailto:cazqc@changan.com.cn)

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

5. Secretaries of the Board: Mr. Cui Yunjiang, Ms. Li Jun

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

Telephone: (023) 67594009

Fax: (023) 67866055

Email address: [cazqc@changan.com.cn](mailto:cazqc@changan.com.cn)

6. Publications for information disclosure of the Company: *China Securities*, *Securities Times* and *Hong Kong Commercial Daily*

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

Filing Location of Semiannual Report: Office of the Board of Directors

7. Key accounting data and financial indicators

	As at 30 June 2007	As at 31 December 2006		Increase/Decrease (%)	
		before adjustment	after adjustment	before adjustment	after adjustment

Total assets ( RMB thousand )	21,704,359	20,766,245	21,378,452	4.52%	1.48%
Owner's equity (or shareholder's equity) (thousand Yuan)	7,207,620	6,771,904	6,778,836	6.43%	6.33%
Net assets per share(thousand Yuan)	4.45	4.18	4.18	6.46%	6.46%
	Reporting period (January-June)	Corresponding period of prior year		Increase/Decrease (%)	
		before adjustment	after adjustment	before adjustment	after adjustment
operation profit(thousand Yuan)	380,134	401,972	346,297	-5.43%	9.77%
Gross profit (thousand Yuan)	500,740	507,208	449,774	-1.28%	11.33%
net profit (thousand Yuan)	428,783	332,216	337,413	29.07%	27.08%
Earnings per share(Yuan/per share)	0.26	0.20	0.21	30.00%	23.81%
Return on net assets	5.95%	4.91%	4.98%	+1.04%	+0.97%
Net cash flow from operating activities (thousand Yuan)	1,397,084		-70,150		2091.58%
Net cash flow from operating activities per share (Yuan/per share)	0.86		-0.04		2250%

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

	Net assets	Net profits
	(RMB) thousand	(RMB) thousand
As reported under PRC accounting standards and enterprise accounting rules:	7,548,409	433,166
Government grants relating to assets	(146,730)	4,696
Tax credit arising from purchase of domestically manufactured machinery and equipment	(40,235)	2,412
Reversal of amortization of goodwill	21,875	
Provision for impairment of goodwill	(75,442)	
Cash considerations paid for share reform of an associate	(71,284)	
Others	(28,973)	(11,491)
Reported under IFR accounting standards	7,207,620	428,783

## Change in shares and information about shareholders

Change in shares

In the report period, there's no change in share capital and shareholding of shareholders.

The top 10 shareholders and top 10 holders of shares

Unit: Share

Total shareholders number		75,188 in total, among of them A shareholders 68,125 & B shareholders 7,063			
top ten shareholders					
Name of shareholders	Nature of Shareholders	% of total share	Total number of shares	Total number of shares with condition of limited sale	Pledged/ Frozen shares
China South Automobile Co., Ltd	State-owned	45.55%	738,255,200	738,255,200	
CMBSA RE FTIF TEMPLETON ASIAN GRW FD GTI5496	Foreign	1.93%	31,343,801		
Fenghe Value Investing Fund	others	1.85%	29,907,553		
ICBC - E fund Value Growth Fund	others	0.72%	11,604,743		
ICBC - UBS SDIC core corporation value fund	others	0.66%	10,699,708		
BBH BOS S/A FIDELITY FD - CHINA FOCUS FD	Foreign	0.65%	10,593,600		
Bank Of China - Franklin Templeton Sealand Prospect Equity Fund.	others	0.65%	10,571,525		
Bank Of Communications - HSBC JINTRUST DYNAMIC STRATEGY MIXED FUND	others	0.64%	10,330,184		
HTHK-VALUE PARTNERS INTELLIGENT FD-CHINA B SHS FD	Foreign	0.59%	9,540,800		
ICBC - Bosera Services Sector Growth Fund	others	0.56%	8,999,560		
Top ten holders of unconditional shares					
Name of shareholders		Total number of unconditional shares	Share type		
CMBSA RE FTIF TEMPLETON ASIAN GRW		31,343,801	Foreign capital stock listed within		

FD GTI5496		China
Fenghe Value Investing Fund	29,907,553	Renminbi ordinary share
ICBC - E fund Value Growth Fund	11,604,743	Renminbi ordinary share
ICBC - UBS SDIC core corporation value fund	10,699,708	Renminbi ordinary share
BBH BOS S/A FIDELITY FD-CHINA FOCUS FD	10,593,600	Foreign capital stock listed within China
Bank Of China - Franklin Templeton Sealand Prospect Equity Fund.	10,571,525	Renminbi ordinary share
Bank Of Communications - HSBC JINTRUST DYNAMIC STRATEGY MIXED FUND	10,330,184	Renminbi ordinary share
HTHK-VALUE PARTNERS INTELLIGENT FD-CHINA B SHS FD	9,540,800	Foreign capital stock listed within China
ICBC - Bosera Services Sector Growth Fund	8,999,560	Renminbi ordinary share
CSFB S/A QINHAN CHINA MASTER FUND (CAYMAN) LTD	8,829,051	Foreign capital stock listed within China
Related relationship of the ten largest shareholders and their consistent act	the ten largest shareholders, the state-owned legal person shareholder China South Industries Co., Ltd. has no relationship with the other shareholders in the above table, and nor was the party who agreed to act alike as stipulated in Administrative Measures on Information Disclosure Concerning Changes in Shareholdings of Listed Companies; the Company did not know whether there was relationship among the other shareholders, and nor knew whether they were the parties who agreed to act alike as stipulated in Administrative Measures on Information Disclosure Concerning Changes in Shareholdings of Listed Companies.	

The top 10 holders of conditional shares

Unit: Share

No.	Name of shareholder with the condition of limited sale	The number of shares of stock with the condition of limited sale	Available time for listing	The number of the shares of newly added stock available for listing	conditions of limited sale

1	China South Automobile Co., Ltd	738,255,200	May 11,2008	36,912,760	The un-circulating shares should not be listed or transferred within at least 24 months from the date of having the right of listing; after the above mentioned 24 months, the shareholders can sell the share through listing in Stock exchange. The number of share for sale should not more than 5% of the total within 12 months and not more than 10% of the total within 24 months.
			May 11,2009	36,912,760	
			May 11, 2010	664,429,680	

Change of controlling shareholder and actual controllers.

In the report period, there's no change in controlling shareholder and actual controllers.

**Information on directors, supervisors, senior executives**

In the report period, there's no change in shareholding for directors, supervisors and senior executives.

In the report period, there's no change in directors, supervisors and senior executives.

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## Discussion and analysis of the management

The operation condition of the Company during the reporting period.

The main business scope of the company

The Company was mainly engaged in the development, manufacturing and sales of passenger cars and business cars. The current products are mainly including: mini-car series such as Changan Star, Changan Brand mini-van, Changan sedan as Ben Ben and Jiexun, Changan Suzuki's Alto, Lingyang, Swift and Suzuki SX4 sedans, Changan Ford Mazda's Mondeo, Focus, Mazda 3, SMAX and Volvo S40 sedan, Jiangling Control's Landwind MPV, and the Company manufactures and sales various types of Jiangling brand engines as well.

The operation condition of the Company during the reporting period.

In the first half of 2007, following the growing Chinese automobile industry, the production and sale kept fast increase, 4300,000 units of cars were produced and manufactured. By grasping the opportunity and constantly keeping the plan of enterprise ahead, the company has grasped and carried out innovation in management, and improved the development speed and complete the operation target in the first half of the year.

In the first half of 2007, the Company and its share controlled subsidiary companies and the jointly operated companies produced 381 , 1500 units of vehicles (Stat. based on 100% of production and sales), with a year-on-year increase of 17.18%; and sold 395,420 units of vehicles, with a year-on-year increase of 25.11%. Among them, 205,831 units of mini vehicles were sold out, with a year-on-year increase of 6.74%; 189,589 units of sedans were sold out, with a year-on-year increase of 53.84%. The production and sale volumes of the Company for the first half of 2007 and that of 2006 are as follows:

Product name	January to June of 2007		January to June of 2006	
	Production Volume	Sales Volume	Production Volume	Sales Volume
Mini-Cars	194,485	205,831	195,565	192,831



Sedans	187,015	189,589	129,989	123,237
Total	381,500	395,420	325,554	316,068

Notes: The statistic of Changan Ford Mazda Co. and Chongqing Changan Suzuki Co. were based on 100% of its production and sales volume.

Chart of the industry or main products that accounted for over 10% of the Company's sales revenues and main operating income during the reporting period.

Unit: (RMB) ten thousand Yuan

Industry/Product	Product sales revenue		Product sales cost		gross profit ratio(%)	
	sum	Increase/Decrease than last year	sum	Increase/Decrease than last year	percentage	(%)Increase/Decrease than last year
Automobile manufacture	1,499,958	33.68%	1,201,693	34.11%	19.88%	-0.26%
Main business products						
mini-car	543,525	0.34%	477,957	5.01%	12.06%	-3.91%
sedan	932,241	69.96%	729,698	75.37%	21.73%	-2.42%

Notes for the significant change in profit components, main business or its structure and profit in the main business during the report period.

During the report period, the sedan sales volume of Changan Ford Mazda Co. has been increased by 75.69% compared with that of the last year; therefore its sale income proportion in the Company's sales has been increased from 33.17% of first half year of 2006 to 43.31% ,and the proportion of the net profit in the Company's has been increased dramatically as well.

#### Analysis of Operating results and financial conditions

Unit: (RMB) ten thousand Yuan

Item	Jan. to June,2007	Jan. to June,2006	Increase/decrease%
main operating revenue	1,499,958	1,122,084	33.68%
main operating profit	38,013	34,630	9.77%
Net profit	42,698	38,647	10.48%

Main reason for change: The main operating revenue was increased by 33.68% than last year due to 2.7 billion Yuan increase of Changan Ford Mazda Company.

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Problems, difficulties during the operation and countermeasures

The facing main problems and difficulties in operation

The company is in the period of the important strategic adjustment and strategic chance , in the period of issues interlaced and contradiction appeared time under the speed up time of the strategic. The main problems faced by the Company during the operation are as follows:

- 1、 The development speed is not fast enough;
- 2、 The development of member cooperator is uneven;
- 3、 In accommodate with speed up target of the company, the managment of the Company needs to be improved.

Main solutions adopted by the Company

- 1、 Speed up the product structure adjustment , define the speed up development target, reasons and measures for the autonomous development of mini-car and sedans of the company.
- 2、 Push " the plan of administrated and controlled by the group", improve the administration and control level of the group, strengthen the instruction by the head quarters and promote the improve in operation quality in each cooperator.
- 3、 Strengthen activities of basic management, carry out the reformation and innovation in system, upgrade the administration level and working efficiency in all aspects and guarantee the realization of the company's strategy.

Investment of the company during the reporting period

- 1、 No usage information on raised money is available for the reporting period
- 2、 Usage information on non raised money during the reporting period was as follows; (RMB: ten thousand)

No.	Investment project	Invested money in 2007	Status	Anticipated profit
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	Technical reform for car production line	5,445	In progress	Included in the total profit of the Company
	Technical reform for engine production line	890	In progress	
	Technical center	667	In progress	
	ERP project	376	In progress	
	Others	345	In progress	
Total		7,723		

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## VI Important Events

### Company Governance

The Company has been strictly complying with the relevant law and regulations, including <<the Company Law>>, <<the Securities Law>>, <<Governance Regulations of Listed Companies>>, <<Listed Company Information Disclose Management Method>>, <<Stock Listing Regulation of Shenzhen Stock Exchange >>, <<Inside Control Guide of Listed Company of Shenzhen Stock Exchange>>, continuously improving the corporate governance structure of the Company, standardizing the management and operations of the Company, established and implemented<< Company Constitution>>., <<Shareholder Convention Discussion Regulation>>, <<Regulation on Board of Directors>>. <<Regulation on Board of Supervisors>>, <<Guarantee Management method>>, <<Management Regulations on Investment Relationship>>, <<Management System on Information Disclose>>. 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. The governance of Company will be perfect with the development of Company.

During report period, according to the documentation NO28 [2007] of China Securities Regulations Commission Notify of Strengthen Listed Company Govern Special Project, the Company carried out self-inspection and found the following issues, which shall be improved:

1、The special committees under the BOD are distempered, and the system of annual remuneration & checking committee of the Company shall be improved.

2、Cumulative voting system has not yet been adopted when the Company selects directors and supervisors.

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3、 Inner management system construction of the Company needs to be further strengthened and some management system needs to be optimized.

4、 Information disclosure management of the Company needs to be further strengthened.

The Company made a plan of reformation after self-inspection, and the plan has been discussed and passed through in the eighth conference of the fourth BOD meeting of the Company, the whole reformation will be finished by the end of Oct. 2007.

Company will strengthen company governance continuously and enhance the inner management system to make sure the Company will develop healthily.

2006 profit distribution implementation results and 2007 interim profit distribution plan

1、 2006 profit distribution implementation results

In the Shareholders' General Meeting of 2006 held on May15, 2007, profit distribution plan for 2006 was determined that the total 1,620,849,200 shares of the Company at the end of 2006 will be taken as the basis and dividend will be distributed to all shareholders at RMB 0.6 Yuan per ten shares (tax included) plus 2 shares (tax included). The shares registration date of A-share distribution was June 29, 2007, the ex-dividend date was July 2, 2007, the last business date for B-share was Jun 29, 2007, the ex-dividend date was July 2, 2007, and the shares registration date was Jul.4, 2007.

2、 2007 interim profit distribution plan:

Neither distribution nor shares addition transferred from reserve will be implemented.

3、 During report period, the Company hasn't implemented share rights incentive proposal.

During the reporti period, the Company was not involved in any significant litigations and arbitrations.

During the reporting period, the Company did not have any significant assets acquisition, sales and restructuring.

Significant related party transactions

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1、 Implementation results for the related party transaction for daily operation  
During the reporting period, the corresponding information of related parties, transaction content, pricing basis and transaction price are all executed as stated in the draft plan proposed in the 2007 Shareholder's General Meeting (For details, see Bulletin published by *China Securities*, *Securities Times* and *Hongkong Commercial Daily* on 16, May, 2007). At the end of the report period, purchase from related parties amounted to 1,30,7,160 thousand RMB, and sales to related parties amounted to 720,400 thousand RMB, and the comprehensive service amounted to 94,360 thousand RMB, namely 35.91%, 40.04 % and 44.83 % to the total 2007 anticipated amount respectively. Related party transaction content has no significant changes compared with anticipation.

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

#### Significant Contracts and their Implementation Results

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

For the need of operation, the Company has leased the sales building of Changan Group with a total area of 4,560 square meters and the monthly rental is RMB40 per square meter; and other buliding of 37,158.1 square meters' area with the monthly rental of RMB35Yuan per square meter. And the Company has leased 621,157.3 square-meter land of Chang Group with an annual rental of RMB15Yuan per square meter. Changan Group has leased the whole fifth, eighth, ninth and tenth floors of the Company's Science and Technology Building, with an area of 9,056 square meters and a monthly rental RMB40Yuan per square meter.

#### 2、 Significant Guarantees

In order to support the development of suppliers, to make better utilization of the financial tools provided by banks, to expand the channels of collecting funds of the dealers, to strengthen the abilities of the dealers, to promote the sales of the company products, the company has signed "Automobile Sale Financial Service Net Agreement" with China Guangda Bank and Zhongxin Bank, and China Guangda Bank and Zhongxin Bank will confer certain comprehensive credit amount to the company, and special credits for the company dealer to accept a bill. To promote the sale of the product of Nanjing Changan and Hebei Changan, the company entrusts Hebei

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Changan and Nanjing Changan to use part of the amount, and for Guangda Bank: Hebei Changan RMB 80,000,000 yuan, Nanjing Changan RMB 20,000,000 yuan ; Zhongxin Bank: Hebei Changan RMB120,000,000 yuan, Nanjing Changan RMB 80,000,000 yuan. The dealers of Hebei Changan and Nanjing Changan utilize the rule of bank acceptance in the above mentioned agreements to purchase all the types of automobiles of Hebei Changan and Nanjing Changan, and when the bank acceptance has been expired, the dealers of Hebei Changan or Nanjing Changan can't give enough money, the selling period can be prolonged for 3 months; If the dealers of Hebei Changan or Nanjing Changan haven't sold out the vehicles in stock yet at the end of the prolonging period, the company will purchase the vehicles at the agreed retrieved price and put the purchase funds into the appointed account of Guangda Bank of China and Zhongxin Bank in time. Hebei Changan and Nanjing Changan promises that they will effect the same payment to the Company within 3 days when the Company undertakes the retrieving purchase obligations according to the above authorization, and they will handle the subsequent matters related to such purchase.

The Status of using credit amount of Hebei Changan and Nanjing Changan: During the reporting period, the dealers of Hebei Changan dealer totally used RMB 132,050 thousand Yuan of bank acceptance of finance service network bank; the dealers of Nanjing Changan dealer totally used RMB 32,250 thousand Yuan of bank acceptancel of finance service network bank. At the end of reporting, Hebei Changan dealer owed RMB 110,099.6 thousand Yuan of bank acceptance of Bank, Nanjing Changan dealer owed RMB 13,522.2 thousand Yuan of bank acceptance of Bank.

3、Assets entrustments: 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.

Commitment:

The commitments of China South Industry Automobile Co., Ltd., the share-controlling shareholder of the Company, for the reform of the decentralization

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of the shareholding rights:

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

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

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

The status of the Company holding shares of the other listed company and non-listed company or company to be listed

1、At end of reporting period, Company hold the 15.39% share of Financial Co., Ltd., China South Industries Group Corp., the account price at the end of reporting period is 80,000 thousand Yuan in RMB.

2、At end of reporting period, Company hold the 1.07% share of South-west Securities (hereinafter called: South-West Securities), the account price at the end of reporting period is 229,880 thousand Yuan inRMB. According to the demands of Chongqing government to South-west Sectities for the regroup, Company signed <<the Share Rights Trusteeship Protocol with Chongqing Yufu Asset management Company>> which belongs to Chongqing government, the share rights of South-west held by Company will be entrusted to Yufu asset Company to manage. At present South west Securities is regrouping with Chongqing Changjiang water transportation Company, it is waiting the approval from government.

The 2007 semi-annual financial report of the Company is unaudited.

Other important events

1、During the reporting period, neither the Company nor its Director, supervisors, senior management staffs and the actual share-controlling personnel/company were



investigated by authorities, dealt with compulsion measure by Justice discipline inspect department, moved to Justice department or run criminal liability, or inspected by China Securities Committee, punished by China Securities Regulatory Commission, prohibited by Securities market, or publicly criticized by other authorities. Regarded impropriety person punished by other administration management and publicly criticized by Securities Exchange.

2、 During reporting period, the Company issued short-term financing bond valued 500 million RMB Yuan according to "Short Term Financing Bond Management Means", and the term is 365 days.

3、 The Company's acceptance of investigation and research and interview during the report period:

During reporting period, the Company has received investigation or visiting of production lines from local or abroad fund management companies, securities company or investment organization. During the discussion with the investors, the relevant staffs of Company have not selectedly or privately disclosed ,revealed or divulged non-public important information, especial object strictly according to <<Shenzhen Securities Exchange Listed Company Equitableness Information Disclose Guide>> and the Company<< Investors Relationship Management System>>.

The information of the Company's acceptance of investigation and research and interview during the report period

Date	place	manner	Visitors	content of discussion and provided documentation
2007.01.04	conference room of Company	oral	New Century Fund Management Co.,Ltd	development and business information of Company and visiting factory
2007.01.10	conference room of	oral	UBS Securities	development and business information of Company and

	Company			visiting factory
2007.01.24	Hebei Changan	oral	Jiacheng Asia	visit factory
2007.01.26	conference room of Company	oral	China Merchants Securities	development and business information of Company and visiting factory
2007.01.31	conference room of Company	oral	CITIC Securities Co.,Ltd、 Boshi Fund Management Co.,Ltd	development and business information of Company and visiting factory
2007.02.02	conference room of Company	oral	HillHouse Capital	development and business information of Company and visiting factory
2007.02.09	conference room of Company	oral	China International Fund Management Co.,Ltd	development and business information of Company and visiting factory
2007.02.12	conference room of Company	oral	JPMORGAN	development and business information of Company and visiting factory
2007.03.07	conference room of Company	oral	Gaohua Securities Co.,Ltd、 HongKong Prime Capital Managmen	development and business information of Company and visiting factory
2007.03.8	公司会议室 conference room of Company	口头oral	Guotai AMC Orient Securities Co.,Ltd	development and business information of Company
2007.03.09	conference	oral	Hu An Fund	development and business

	room of Company		Management Co.,Ltd	information of Company
2007.03.14	conference room of Company	oral	Da Cheng Fund Management Co.,Ltd	development and business information of Company
2007.03.15	conference room of Company	oral	UBS Securities	development and business information of Company
2007.03.16	conference room of Company	oral	Ping An Securities Company Ltd、 Fortis Haitong Investment Management Co.Ltd.	development and business information of Company and visiting factory
2007.03.20	conference room of Company	oral	Guotai AMC、SYWG BNP PARIBAS ASSET MANGMENT	development and business information of Company
2007.3.21	conference room of Company	oral	MorganStanley	development and business information of Company and visiting factory
2007.3.22	conference room of Company	oral	Lombarda China Fund Management Co.,Ltd、 Chang Xin Asset Manegment、 China Post &Capital Fund Management Co.,Ltd、 Industrial Securities Co.,Ltd、	development and business information of Company and visiting factory

			Fortune SGAM Fund Management Co.,Ltd,	
2007.3.22	conference room of Company	oral	Goldman Sachs	development and business information of Company and visiting factory
2007.3.27	conference room of Company	oral	CLSA LIMITED	development and business information of Company
2007.3.30	conference room of Company	oral	China universal Asset Management Co.,Ltd	development and business information of Company
2007.4.3	conference room of Company	oral	Waddell & Reed Investment Management Company	development and business information of Company and visiting factory
2007.4.18	conference room of Company	oral	UBS Securities	development and business information of Company and visiting factory
2007.4.18	Company	video conference	Huidong Capital Management Co.,Ltd	development and business information of Company
2007.4.19	conference room of Company	oral	BNP PARIBAS PEREGRINE	development and business information of Company and visiting factory
2007.4.24	Company	video conference	UBS Securities	development and business information of Company
2007.4.25	conference room of	oral	Merrill Lynch	development and business information of Company

	Company			
2007.4.26	conference room of Company	oral	MorganStanley	development and business information of Company and visiting factory
2007.5.15	conference room of Company	oral	UBS Securities	development and business information of Company and visiting factory
2007.5.15	conference room of Company	oral	Gaohua Securities Co.,Ltd、 Guosen Securities、 Fullgoal Fund Management Co.,Ltd、	development and business information of Company and visiting factory
2007.5.16	conference room of Company	oral	China Re Asset Management Co.,Ltd、 China Southern Fund Management Co.,Ltd、 CCB Principal Fund Management Co.,Ltd	development and business information of Company and visiting factory
2007.5.22	conference room of Company	oral	CLSA LIMITED	development and business information of Company and visiting factory
2007.5.29	conference room of Company	oral	Boshi Fund Managment Co.,Ltd	development and business information of Company and visiting factory
2007.5.30 -06.01	conference room of Company	oral	Guojin Securities Company Ltd、 Changsheng Fund	development and business information of Company and visiting factory

			Management Co.,Ltd, New Century Fund Management Co.,Ltd, Penghua Fund Management Co.,Ltd , SYWG <b>BNP PARIBAS</b> <b>ASSET</b> <b>MANGMENT,</b> Harvest Fund Mangement Co.,Ltd, <b>Prime Capital</b> Managmen, Ping An Securities Company Ltd	
2007.6.14	conference room of Company	oral	East Asia Asset Management	development and business information of Company and visiting factory
2007.6.28	conference room of Company	oral	Industrial Securities	development and business information of Company and visiting factory

#### 4、 Index for other information announcement

Announcements of the Company were all published in the *China Securities, Security Times and Hongkong Commercial Daily*, which could also be reached at [Http://www.cninfo.com.cn](http://www.cninfo.com.cn) in Internet.

2007-1。 Announcement of BOD and Announcement of resolution report of the fifth Meeting of the fourth BOD meeting published on Jan. 6, 2007. The announcement No: 2007-1

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Gurantee announcement for other company published on Jan. 6,2007.The announcement No:2007-02

Notify of first temporary shareholders conference of 2007 published on Jan. 6, 2007. The announcement No: 2007-03

Announcement of amending business forecast published on Jan. 18, 2007.The announcement No: 2007-04

Announcement Resolution of first temporary shareholders conference published on Jan. 27, 2007. The announcement No: 2007-05

Announcement of short term financing bond published on March 21, 2007. The announcement No: 2007-06

2006 annual report summary, Announcement of resolution of fourth conference of fourth BOD meeting published on Apr. 12, 2007. The announcement No: 2007-7、2007-8、 2007-9、 2007-10、 2007-11、 2007-12

The first quarter report of 2007 published on Apr.30, 2007, The announcement No: 2007-13

Announcement of resolution report of 2006 annual shareholder conference published on May 16, 2007.The announcement No:2007-14

Announcement Share distribution published on June 25, 2007. The announcement No: 2007-15

Reprot of self-inspection and reformation plan of the Company published on June 30, 2007, .The announcement No:2007-16

## VII Financial Report ( Unaudited )

### Financial Statements

CHONGQING CHANGAN AUTOMOBILE CO., LTD.

CONSOLIDATED BALANCE SHEET

AS AT 30 Jun 2007

(all amounts in RMB thousands)	30-Jun-07	31-Dec-06
<b>ASSETS</b>		
<b>Non-current assets</b>		
Property, plant and equipment	8,383,436	7,936,437
Lease prepayments	413,921	501,284
Intangible assets	133,008	110,844
Investments in associates	1,485,928	1,427,415
Available-for-sale financial assets	123,770	114,989
Other non-current assets	3,614	3,614
Deferred income tax assets	221,841	220,121
	10,765,518	10,314,704
<b>Current assets</b>		
Inventories	3,238,828	3,457,256
Trade and other receivables	3,771,983	3,496,188
Restricted cash	203,545	203,545
Cash and cash equivalents	3,724,485	3,906,759
	10,938,841	11,063,748
<b>Total assets</b>	<b>21,704,359</b>	<b>21,378,452</b>



CHONGQING CHANGAN AUTOMOBILE CO., LTD.  
CONSOLIDATED BALANCE SHEET  
AS AT 30 Jun 2007 (CONTINUED)

(all amounts in RMB thousands)	30-Jun-07	31-Dec-06
<b>EQUITY</b>		
<b>Capital and reserves attributable to equity holders of the Company</b>		
Ordinary shares	1,620,849	1,620,849
Share premium	1,743,168	1,743,168
Other reserves	1,731,460	1,731,460
Retained earnings	2,112,143	1,683,359
	7,207,620	6,778,836
<b>Minority interests</b>	636,151	612,571
<b>Total equity</b>	7,843,771	7,391,407
<b>LIABILITIES</b>		
<b>Non-current liabilities</b>		
Borrowings	936,374	1,474,655
Deferred income tax liabilities	82,820	82,820
Retirement benefit obligations	27,200	29,891
Deferred income	349,234	356,342
Other non-current liabilities	2,422	2,422
	1,398,050	1,946,130
<b>Current liabilities</b>		
Trade and other payables	10,364,647	9,583,897
Current income tax liabilities	40,666	102,714
Borrowings	1,542,128	1,895,495
Derivative financial instruments	16,874	16,874
Provisions for other liabilities and charges	498,223	441,935
	12,462,538	12,040,915
<b>Total liabilities</b>	13,860,588	13,987,045
<b>Total equity and liabilities</b>	21,704,359	21,378,452

Chongqing Changan Automobile Co., Ltd.

Consolidated income statement

(all amounts in RMB thousands)	Jan~Jun 2007	Jan~Jun 2006
Sales	14,999,583	11,220,838
Sales tax and surcharge	(589,851)	(405,094)
<b>Net sales</b>	14,409,732	10,815,744
Cost of goods sold	(12,016,933)	(8,960,541)
<b>Gross profit</b>	2,392,799	1,855,203
Selling and marketing costs	(1,273,465)	(974,201)
Administrative expenses	(841,686)	(551,351)
Other income	102,486	16,646
<b>Operating profit</b>	380,134	346,297
Finance cost	(44,160)	(73,174)
Share of profit of associates	164,766	176,651
<b>Profit before income tax</b>	500,740	449,774
Income tax expense	(73,765)	(63,301)
<b>Profit for the year</b>	426,975	386,473
<b>Attributable to:</b>		
Equity holders of the Company	428,783	337,413
Minority interests	(1,808)	49,060
	426,975	386,473
<b>Earnings per share for profit attributable to the equity holders of the Company during the year</b>		
(RMB per share)		
- Basic and diluted	0.26	0.21

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

(all amounts in RMB thousands)	Period ended 30 June	
	<b>2007</b>	<b>2006</b>
<b>Cashflow from Operating Activities</b>		
Cash generated from sales of goods and service supply	14,764,023	10,859,800
Tax Received	22,442	13,367
Cash generated from other operating activities	289,820	165,526
Subtotal of cash inflow	<b>15,076,285</b>	<b>11,038,693</b>
Cash paid relating to purchase of goods and services	10,342,099	8,096,461
Cash paid relating to the employees	461,410	388,221
Tax paid	1,290,584	1,272,349
Cash paid relating to other operating activities	1,585,108	1,351,812
Subtotal of cash outflow	<b>13,679,201</b>	<b>11,108,843</b>
Net cash generated from operating activities	<b>1,397,084</b>	<b>(70,150)</b>
<b>Cashflow from Investing Activities</b>		
Cash generated from other investing activities	332,857	12,624
Proceeds from disposal of fixed assets, intangible assets and other long-term assets	3,744	1,948
Proceeds from disposal of holded company and other company	59,061	
Cash generated from other operating activities	148	266
<b>Subtotal of cash inflow</b>	395,810	14,838
Purchase of fixed assets, intangible assets and other long-term assets	1,119,530	969,268
Cash paid for holded company and other company	17,676	213,953
Cash paid relating to other investing activities	218	31,320
<b>Subtotal of cash outflow</b>	1,137,424	1,214,541
<b>Net cash generated from investing activities</b>	<b>(741,614)</b>	<b>(1,199,703)</b>
<b>Cashflow from Financing Activities</b>		
Cash generated from investment	900	212,843
Proceeds from borrowings	1,699,630	828,214
Proceeds from debenture	500,000	500,000
Cash generated from other financing activities	(6,555)	246,587
Subtotal of cash inflow	<b>2,193,975</b>	<b>1,787,644</b>
Repayment of borrowings	2,590,554	518,696
Cash for dividends assignment, profit or interest liquidation	436,197	63,894
Cash paid relating to other financing activities	2,195	1,912
<b>Subtotal of cash outflow</b>	<b>3,028,946</b>	<b>584,502</b>
<b>Net cash generated from financing activities</b>	<b>(834,971)</b>	<b>1,203,142</b>

Fluctuation of exchange rate impacted on the cash and cash equivalent	<b>(2,774)</b>	<b>1,336</b>
Net Increase in cash and cash equivalents	(182,275)	(65,375)
Cash and cash equivalents at beginning of year	4,110,305	3,478,326
Cash and cash equivalents at end of year	3,928,030	3,412,951

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## **Notes to the financial statements**

### **1 General information**

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

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

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

These consolidated financial statements have been approved for issue by the Board of Directors on 24 August 2007.

### **2 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 financial statement preparation**

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

#### **B Group accounting**

##### **(1) Subsidiaries**

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

The Group uses the purchase method to account for the acquisition of subsidiaries. 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.

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

(4) Associates

Associates are all entities over which the Group has significant influence but not control, generally accompanying a shareholding of between 20% and 50% of the

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voting rights. Investments in associates are accounted for using the equity method of accounting and are initially recognised at cost. The Group's investment in associates includes goodwill (net of any accumulated impairment loss) identified on acquisition.

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

Unrealised gains on transactions between the Group and its associates are eliminated to the extent of the Group's interest in the associates. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of associates have been changed where necessary to ensure consistency with the policies adopted by the Group

## **C Foreign currency exchange**

### **(1) Measurement currency**

Items included in the financial statements of each entity in the Group are measured by the currency that best reflects the economic substance of the underlying events and circumstances relevant to that entity ("the measurement currency"). The consolidated financial statements are presented in RMB, which is the measurement currency of the Company.

### **(2) Transactions and balances**

Foreign currency transactions are converted 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 exchange 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 exchange differences resulting from changes in the amortised cost of the security, and

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other changes in the carrying amount of the security. Exchange differences are recognised in profit or loss, and other changes in carrying amount are recognised in equity.

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

#### **D Fixed asset**

Fixed assets are stated accumulated depreciation and impairment losses. All direct and indirect costs relating to the acquisition or construction of fixed assets including interest costs on related borrowed funds during the construction period are capitalised as fixed assets.

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
transportation means	5-8 years
Others	years

The assets' residual values and useful lives will be re-evaluated, 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.

The balance between the carrying amount and the disposal gains are included in the income statement when the fixed assets are sold or scrapped.



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Assets under construction including buildings under construction and plant and equipment pending installation that 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 capitalized in the financial expenses in the period it incurred.

## **E Land use rights**

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

## **F intangible assets**

### **(1) Goodwill**

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

### **(2) Proprietary technology**

Proprietary technology is stated at cost less amortisation. Amortisation is calculated on a straight-line basis over the expected beneficial period starting

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from the date of use (3 to 6 years).

(3) Trademarks

Trademarks are shown at historical cost minus accumulated amortisation. 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) Software

Software 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 (5 years).

## **G Impairment of 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 amount between the net amount that is an asset's fair value subtract from the sales costs and the value in use. For the purposes of assessing impairment, assets are classified at the lowest levels for which there are separately identifiable cash flows (cash-generating units). Non-financial assets other than goodwill that suffered 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 purpose 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

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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 exchange differences resulting from changes in amortised cost of the security and other changes in the carrying amount of the security. The exchange 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

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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 referring to other similar assets' recent fair trade price, discount cash flow analysis and option pricing models, which will use the market input variables in maximum and minimize the use of 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 deducting accumulated amortisation. Amortisation is calculated on a straight-line over the useful life of the deferred assets.

#### **K Inventories**

Inventories are stated at the lower one between the cost and net realisable value.

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Cost is determined by the weighted average method. The cost of finished goods and semi-products comprises of 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, deducts 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 are recognized at cost in the balance sheet. 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 when the calculation of cash flow table is considered. Bank overdrafts are included within borrowings in current liabilities on the balance sheet.

**N Share capital**

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

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

**O Borrowings**

Borrowings are recognised initially at fair value after deduction 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

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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.

**Q Employee welfare**

(1) Scheme for 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 when they 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 welfare

Termination welfare is payable whenever an employee's employment is terminated before the normal retirement date or whenever an employee accepts voluntary dimission 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 dimission. Benefits falling due more than 12

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months after balance sheet date are discounted to present value.

(3) Housing fund and other welfare

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

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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



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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 2006 (2005: nil).

#### **W Government grants**

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

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

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

#### **X Segment reporting**

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

#### **3 Financial risk management**

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### 3. Financial risk factors

1

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

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

#### ( 1 ) Credit risk

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

#### ( 2 ) Liquidity risk

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

#### (3) Cash flow and fair value interest rate risk

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

#### (4) Foreign exchange risk

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

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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. Fair values estimation

2

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

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exchange contracts is determined using quoted forward exchange rates at the balance sheet date.

#### **4 Critical accounting estimates and judgements**

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

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

##### **(1) Depreciation and amortisation**

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

##### **(2) Impairment of non-financial assets**

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

##### **(3) Impairment of trade and other receivables**

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

##### **(4) Inventories**

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

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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 Inventories**

	<b>Jun. 30, 2007</b>	<b>2006</b>
	<b>RMB'000</b>	<b>RMB'000</b>
Raw materials (at net realisable value)	1,323,872	1,378,919
Work in progress (at cost)	179,171	102,148
Finished goods (at net realisable value)	1,699,453	1,938,580
Consumables (at cost)	36,332	37,609
	<b>3,238,828</b>	<b>3,457,256</b>

**6 Trade and other receivables**

	<b>Jun.30, 2007</b>	<b>2006</b>
	<b>RMB'000</b>	<b>RMB'000</b>
Trade receivables	1,531,993	771,586
Less : provision for impairment of trade receivables	81,132	85,559
Trade receivables – net	1,450,861	686,027
Notes receivables	1,520,178	2,192,159
Prepayments	480,144	439,233
Other receivables	335,847	191,872
Less : provision for impairment of other receivables	15,922	15,748
other	875	2,645
	<b>3,771,983</b>	<b>3,496,188</b>

**7 Borrowings**

	Jun.30, 2007 RMB'000	2006 RMB'000
<b>Current</b>	<b>1,542,128</b>	<b>1,895,495</b>
Bank borrowings	1,542,128	1,895,495
- secured	1,350,028	1,736,995
- unsecured	192,100	158,500
<b>Non-current</b>	<b>936,374</b>	<b>1,474,655</b>
Bank borrowings	936,374	1,474,655
- secured	839,474	945,500
- unsecured	96,900	529,155
<b>Total borrowings</b>	<b>2,478,502</b>	<b>3,370,150</b>

The fair value of borrowings approximates their carrying values

## 8 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.

## 9 Finance costs

	Jun. 30, 2007 RMB'000	2006 RMB'000
Interest expense on borrowings	57,922	44,617
Net foreign exchange gain	-23,195	25,562
Interest expense on bank acceptance notes	1,321	1,219
Bank acceptance notes discounted charges	6,407	2,322
Others	1,705	-546
	44,160	73,174

## 10 Earnings per share

Basic earning 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.

	Jun.30, 2007 RMB'000	2006 RMB'000
Profit attributable to shareholders of the	428,783	337,413

Company  
 Weighted average number of ordinary shares in issue (thousands) 1,620,849 1,620,849  
 Basic earnings per share (RMB per share) 0.26 0.21  
 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 2006 and the first half year of 2007.

## 11 Related party transactions

### The Related Parties under the Dominant Relationship

Entity	Register Location	Principal activities	Relationship with this company	ownership or corporation type	Legal representative
China South Industry Group Co.	Beijing	Investment and management of state-owned assets	Final propriary Company	Complete state-owned investment	XU Bin
China South Automotive Industry Co. Ltd.	Beijing	Manufacture and sale of Automobile, engine and part&component	Parent company	Stock Company	Xu Bin
Chongqing Changan Automobile Import and Export Co., Ltd	Chongqing	Import and export, sale of automobiles and spare parts	subsidiary	Limited liability	Wang Chongshe
Chongqing Changan Automobile Sales Co., Ltd.	Chongqing	Sale of automobiles, engines and spare parts	subsidiary	Limited liability	Song Jia
Nanjing Changan Automobile Co., Ltd.	Nanjing	Manufacture and sale of mini automobiles and spare parts	subsidiary	Limited liability	Xu Liuping Zhang Baolin
Sales Companies	P.R.C.	Sale of automobiles and spare parts	subsidiary	Limited liability	Yang Dayong
Hebei Changan Automobile Co., Ltd	Dingzhou	Manufacture and sale of auto-mobiles and spare parts	subsidiary	Limited liability	Song Jia
Chongqing Anfu Automobile Co., Ltd	Chongqing	Sale of automobiles and spare parts	subsidiary	Limited liability	Zhang Baolin
Chongqing Changan	Chongqing	Sale of special	subsidiary	Limited	Song Jia

Special Automobile Co., Ltd	ing	automobiles and spare parts, automobile repair		liability	
Chongqing Changan Service Co., Ltd	Chongqing	Sale of automobiles and spare parts	subsidiary	Limited liability	Song Jia
Jiangxi Jiangling Holding Co., Ltd.	Nanchang	Investment, foreign trading	subsidiary	Limited liability	Yin Jiayu
Shantou Lufeng Automobile Sales Co., Ltd.	Shantou	Sale of automobiles and related products	subsidiary	Limited liability	Gao Xuyuan
Changan Automobile European Design Center Co.	Turin, Italy	Vehicle research, development and etc.	subsidiary	Limited liability	Zhu Huarong

The Register Capital and Its Change for the Related Party under the Dominant

Relationship as follows :

Name of Entity	Currency	Dec.31, 2006	Increase of This Year	Decrease of This year	Jun. 30, 2007
China South Industry Group Co.	RMB	12,645,210,000	-	-	12,645,210,000
China South Automotive Industry Co. Ltd.	RMB	4,582,373,700	-	-	4,582,373,700
Chongqing Changan Automobile Import and Export Co., Ltd	RMB	13,756,400	-	-	13,756,400
Chongqing Changan Automobile Sales Co., Ltd	RMB	48,500,000	-	-	48,500,000
Nanjing Changan Automobile Co., Ltd.	RMB	601,808,539	-	-	601,808,539
Hebei Changan Automobile Co., Ltd	RMB	264,690,000	-	-	264,690,000
Jiangxi Jiangling Holding Co., Ltd.	RMB	1,000,000,000	-	-	1,000,000,000
Chongqing Changan Special Automobile Co., Ltd	RMB	5,000,000	-	-	5,000,000
Chongqing Changan Service Co., Ltd	RMB	30,000,000	-	-	30,000,000
Chongqing Anfu Automobile	RMB	32,000,000	-	-	32,000,000

Co., Ltd					
Sales Companies	RMB	118,836,400		87,436,400	31,400,000
Shantou Lufeng Automobile Sales Co., Ltd.	RMB	1,000,000	-	-	1,000,000
Changan Automobile European Design Center Co.	Euro	100,000	-	-	100,000

Shares or equity variation of related parties that have controlled relationship

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

Company Name	RMB: ten thousand							
	31 December 2006		Increase of this year		Decrease of this year		30 June 2007	
	sum	%	sum	%	sum	%	sum	%
China South Industries Automobile Co., Ltd.	73,826	45.55	-	-	-	-	73,826	45.55

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

Name of related parties	relationship with the Company
Tsingshan Transmission division, China South Industries Automobile Co., Ltd.	Controlled by a same patient company
Ningjiang absorber division, China South Industries Automobile Co., Ltd.	Controlled by a same patient company
JianAn Axle division, China South Industries Automobile Co., Ltd.	Controlled by a same patient company
Chongqing Changan Jinling Vehicles Parts Co., Ltd.	Controlled by a same patient company
Chongqing Changfeng Jiquan Machinery Co., Ltd.	Controlled by a same patient company
Chongqing Automobile Air-conditioner Co., Ltd.	Controlled by a same patient company
Chongqing Helpgo Information Technology Corp.	Associate of the Company
Jiangling Automobile Co., Ltd.	Associate of the Company
Chongqing Changan Suzuki Automobile Co., Ltd.	Jointly controlled entity of the Company



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Changan Ford Mazda Automobile Co., Ltd.	Jointly controlled entity of the Company
Changan Ford Mazda Engine Co., Ltd.	Jointly controlled entity of the Company
Changan Automobile (Group) Co., Ltd.	Controlled by a same ultimate patient company
Chongqing Changan Automobile parts Factory	Controlled by a same ultimate patient company
Chongqing Changan Construction Co., Ltd.	Controlled by a same ultimate patient company
Bao Ding changan Automobile Co., Ltd.	Controlled by a same ultimate patient company
Chongqing Changan Support Services Co., Ltd.	Controlled by a same ultimate patient company
Chongqing Changan Real Estate Development Co., Ltd.	Controlled by a same ultimate patient company
Chongqing Jiangling Construction Co., Ltd.	Controlled by a same ultimate patient company
Chengdu Wanyou Economic Development Co., Ltd.	Controlled by a same ultimate patient company
Chongqing Wanyou Economic Development Co., Ltd.	Controlled by a same ultimate patient company
Southwest Industries Corporation	Controlled by a same ultimate patient company
Chong Qing Hongyu Precision Industries Co., Ltd.	Controlled by a same ultimate patient company
Sichuan Jianan North Automobile Axle Co., Ltd.	Controlled by a same ultimate patient company
Chongqing Jianshe Automobile Air-conditioner Co., Ltd.	Controlled by a same ultimate patient company
Chongqing Changjiang Electrics (Group) Co., Ltd.	Controlled by a same ultimate patient company
Longchang Shanchuan Shock-absorbing Works Industries Co., Ltd.	Controlled by a same ultimate patient company
Yunnan Xiyi Industries Co., Ltd.	Controlled by a same ultimate patient company
Hubei Xiaogan Huazhong Automobile Light Co., Ltd.	Controlled by a same ultimate patient company
Chongqing Yihong Engineering Plastic Products Co., Ltd.	Controlled by a same ultimate patient company

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Sichuan Huaqing Machinery Co., Ltd.	Controlled by a same ultimate patient company
Chengdu Lingchuan Machinery Factory	Controlled by a same ultimate patient company
Chongqing Changfeng Machinery Co., Ltd.	Controlled by a same ultimate patient company
Sichuan Hongguang Machinery and Electrics Co., Ltd.	Controlled by a same ultimate patient company
China Yanxing Northwest Co.	Controlled by a same ultimate patient company
Chongqing Wanbin Material Co., Ltd.	Controlled by a same ultimate patient company
Financial Co., Ltd., China South Industries Group Corp.	Controlled by a same ultimate patient company

Related Transaction

Pricing Policy

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

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

Name of related parties	Jan. -Jun. 2007	Jan. -Jun. 2006
Chongqing Changan Jinling Vehicles Parts Co., Ltd	322,369,363	318,543,667
Changan Automobile Group Co. Ltd.	23,443,673	22,043,374
Chongqing Wanyou Economic Development Co., Ltd.	44,668,952	47,942,935
Sichuan Jianan North Automobile Axle Co., Ltd.		55,226,909
JianAn Axle division, China South Industries Automobile Co., Ltd.	187,389,143	98,834,048
Ningjiang absorber division, China South Industries Automobile Co., Ltd.	35,079,202	35,597,648
Hubei Xiaogan Huazhong Automobile Light Co., Ltd.	31,736,793	18,236,452
Chongqing Changjiang Electrics (Group) Co., Ltd.	36,155,740	33,846,727
Chongqing Jianshe Automobile Air-conditioner Co., Ltd.	51,182,898	77,453,110
Sichuan Hongguang Machinery and Electrics Co., Ltd.	28,578,721	29,902,961
Longchang Shanchuan Shock-absorber Industries Co., Ltd.	41,643,508	35,214,966
Tsingshan Transmission division, China South Industries Automobile Co., Ltd.	213,275,357	156,646,735
Yunnan Xiyi Industries Co., Ltd.	11,277,652	13,997,724
Bao Ding Changan Automobile Co., Ltd.	5,259,747	3,104,208

Chengdu Lingchuan Machinery Factory	40,980,974	64,180,595
Changan Ford Mazda automobile Co., Ltd. ( a )	69,072,582	91,864,853
Chongqing Changan Suzuki Automobile Co.,Ltd.(b)	1,246,035	107,378
Chongqing Automobile Air-conditioner Co., Ltd.	25,965,587	54,555,605
Chongqing Yihong Engineering Plastic Products Co., Ltd.	9,098,030	15,431,547
Chongqing Changfeng Jiquan Machinery Co., Ltd.	1,099,301	4,545,175
Chong Qing Hongyu Precision Industries Co., Ltd.	28,734,884	22,721,383
Jiangling Automobile Co., Ltd.	69,492,058	102,393,385
合计	1,277,750,742	1,302,391,385

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

b: The transaction with Changan Suzuki shown above is after elimination of the Company's proportionate interests in it.

#### Sales of vehicles, parts and materials (tax not included)

Name of related parties	Jan. -Jun. 2007	Jan. -Jun. 2006
Changan Automobile (Group) Co., Ltd. and its subsidiaries	71,974,671	4,605,239
Chengdu Wanyou Economic Development Co., Ltd.	335,435,705	301,821,857
Chongqing Wanyou Economic Development Co., Ltd.	107,511,184	149,123,751
Chengdu Lingchuan Machinery Factory	20,669,600	32,038,323
Chongqing Changan Jinling Vehicles Parts Co., Ltd	15,578,413	52,594,705
China Yanxing Northwest Co.		343,932
Changan Ford Mazda Automobile Co., Ltd.(a)		565,640
Chongqing Changan Suzuki Automobile Co., Ltd.(b)	122,338,613	145,145,678
Sichuan Hongguang Machinery and Electrics Co., Ltd.	17,668,762	17,756,841
Tsingshan Transmission division, China South Industries Automobile Co., Ltd.	439,308	563,145
Sichuan Jianan North Automobile Axle Co., Ltd.		935,974
JianAn Axle division, China South Industries Automobile Co., Ltd.	371,968	
Longchang Shanchuan Shock-absorber Industries Co., Ltd.	1,635,556	477,562
Chongqing Wanbin Material Co., Ltd.	88,157,774	63,344,585
Ningjiang absorber division, China South Industries Automobile Co., Ltd.	1,006,403	565,910
in total	720,395,265	769,883,142

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

b: The transaction with Changan Suzuki shown above is after elimination of the Company's proportionate interests in it.

#### Purchase Goods and the Payment

Name of Related Party	Jan. -Jun. 2007	Jan. -Jun. 2006
Changan Automobile (Group) Liabilities Limited Co.	2,750,230	86,192
Changan Construction Engineering Co.	20,363,860	125,769,927
Chongqing Helpgo Information Technology Corp.	6,265,074	4,606,464
Chongqing Jiangling Construction Company	29,679	698,922
	29,408,843	131,161,505

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

b: The transaction with Changan Suzuki shown above is after elimination of the Company's proportionate interests in it.

#### Comprehensive Service

Name of Related Party	Content	Jan. -Jun. 2007	Jan. -Jun. 2006
Changan Automobile (Group) Co., Ltd.	Trademark fee	4,895,100	6,359,940
Changan Automobile (Group) Co., Ltd.	Lease of land use right	4,658,680	7,898,720
Changan Automobile (Group) Co., Ltd.	Building rental fee	8,897,601	10,253,932
Changan Automobile (Group) Co., Ltd.	Water, electricity and gas fee	41,327,370	40,157,002
Changan Automobile (Group) Co., Ltd.	Welfare	22,831,602	18,371,320
Changan Automobile (Group) Co., Ltd.	Telephone charges	-	894,600
Changan Automobile (Group) Co., Ltd.	Education fee	2,536,848	2,934,261
Changan Automobile (Group) Co., Ltd.	Security and fire fighting fee	5,417,451	5,061,340
Changan Automobile (Group) Co., Ltd.	Labours' union fee	3,382,459	2,789,210
Changan Automobile (Group) Co., Ltd.	others	416,328	1,205,496
in total		94,363,439	95,925,821

#### other transactions

Related parties' name	Contents	Jan. -Jun. 2007	Jan. -Jun. 2006
Chongqing Helpgo Information Technology Corp.	Information service fee	11,284,881	15,003,662
Changan Automobile (Group) Co., Ltd.	Building rental fee	2,173,440	1,086,720

	Sale of		
	properties, plant		203,728
Changan Automobile (Group) Co., Ltd.	and equipment		
	Sale of		
Chongqing Changan Jinling Vehicles Parts Co., Ltd.	properties, plant		2,040,567
	and equipment		
Changan Ford Mazda Engine Co., Ltd.(a)	Human resources	2,200,434	1,200,000
	support		

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

Balances with related parties

(a) Receivables from related parties:

Related parties'name	June 30 2007	Dec. 31 2006
Changan Automobile (Group) Co., Ltd. and its subsidiaries	62,431,466	3,589,620
Changan Ford Mazda Automobile Co., Ltd.(a)		5,017,175
Chongqing Changan Suzuki Automobile Co., Ltd. (b)	41,167,467	76,601,461
Chengdu Wanyou Economic Technological Development Co.,Ltd.	15,179,733	27,980,748
Chongqing Wanyou Economic Development Co., Ltd.		3,181,660
Chongqing Changan Jinling Vehicles Parts Co., Ltd.		177,525
Chongqing Wanbin Material Co., Ltd.		3,296,350

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

b: Payables to Changan Suzuki shown above are after elimination of the Company's proportionate interests in them.

(a) Notes receivable (commercial acceptance draft)

Related parties'name	June 30 2007	Dec. 31 2006
Chengdu Wanyou Economic Technological Development Co.,Ltd.	9,686,815	62,916,000
Chongqing Wanyou Economic Development Co., Ltd.	8,100,000	91,579,585
Chongqing Wanbin Material Co., Ltd.	650,000	

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(c) Pre-payment to related parties

Related parties' name	June 30 2007	Dec. 31 2006
Chongqing Helpgo Information Technology Corp.	845,788	
Changan Ford Mazda Automobile Co., Ltd.(a)		10,012,370
Chongqing Changan Jinling Vehicles Parts Co., Ltd.		2,472,831
Jiangling Automobile Co., Ltd.		353,592
Changan Automobile (Group) Co., Ltd. and its subsidiaries		51,040
Chongqing Changan Construction Co.Ltd.	8,953,007	553,971

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

(d) Bank deposits

Related parties' name	June 30 2007	Dec. 31 2006
Financial Co., Ltd., China South Industries Group Corp.	301,682,057	161,518,605

(e) Payables to related parties:

Related parties' name	June 30 2007	Dec. 31 2006
Chongqing Wanyou Economic Development Co., Ltd.	6,840,571	6,606,983
Baoding changan Automobile Co., Ltd.		2,882,416
Chongqing Changan Automobile parts Factory		377,149
Longchang Shanchuan Shock-absorber Industries Co.Ltd.	17,063,085	8,282,604
Chongqing Jianshe Automobile Air-conditioner Co., Ltd.	26,098,623	23,542,168
Chongqing Changan Jinling Vehicles Parts Co., Ltd.	31,721,871	27,467,613
Chongqing Changjiang Electrics (Group) Co., Ltd.	6,641,462	3,687,623
Changan Automobile (Group) Co., Ltd.		65,424,265
Chongqing Helpgo Information Technology Corp.		12,922,453

Changan Ford Mazda Automobile Co., Ltd.(a)		1,215,730
Chongqing Changan Suzuki automobile Co., Ltd.(b)	4,275,490	1,298,969
Tsingshan Transmission division, China South Industries Automobile Co. Ltd.	43,266,479	43,638,117
JianAn Axle division, China South Industries Automobile Co. Ltd.	14,235,645	37,529,333
Ningjiang absorber division, China South Industries Automobile Co. Ltd.	7,764,539	8,721,146
Chongqing Automobile Air-conditioner Co., Ltd.	18,905,997	14,483,417
Yunnan Xiyi Industries Co., Ltd.	82,162	3,440,141
Hubei Xiaogan Huazhong Automobile Light Co., Ltd.	11,820,004	13,405,611
Chongqing Yihong Engineering Plastic Products Co., Ltd.	6,026,860	2,846,927
Sichuan Huaqing Machinery Co., Ltd.		4,676,703
Sichuan Hongguang Machinery and Electrics Co., Ltd.	1,937,206	15,172,554
Chengdu Lingchuan Machinery Factory	605,766	6,447,463
Chongqing Changfeng Jiquan Machinery Co., Ltd.	514,411	805,422
Chongqing Changan Construction Co.Ltd.		27,163,464
Jiangling Automobile Co., Ltd.		10,485,207
Chongqing Jiangling Construction Co.Ltd.		2,426,709

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

b: Payables to Changan Suzuki shown above are after elimination of the Company's proportionate interests in them.

(f)Advances from customers

Related parties'name	30 June 2007	31 December 2006
Changan Automobile (Group) Co.Ltd.	1,102,861	46,100,274
China Yanxing Northwest Co.	25,000	-
Chongqing Wanyou Economic Development Co.,Ltd.	0	27,965,497
Chengdu Wanyou Economic Technological Development Co.,Ltd.	0	103,555
Chongqing Changan Jinling Vehicles Parts	0	11,080,000

Co., Ltd.		
Chongqing Wanyou Material Co., Ltd.	2,924,824	4,111,130
(g)Advances from customers		

Related parties' name	30 June 2007	31 December 2006
Financial Co., Ltd., China South Industries Group Corp.	38,600,000	41,700,000

## 12 Other matters

By the day 30 June 2007, there are no other important matters in the Company during the reporting period.

## 13 Events after the balance sheet date

The follows are the events after the balance sheet date:

In the 2006 Shareholders' General Meeting held on May 15, 2007, the 2006 profit distribution plan was determined that the total 1,620,849,200 shares of the Company at the end of 2006 will be taken as the basis and dividend will be distributed to all shareholders at RMB 0.6 Yuan per ten shares (tax included) , and 2 bonus shares. After the implementation of above profit distribution on July 5<sup>th</sup>, the total shares of the company becomes 1,945,019,040 shares.

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

	Net Assets	Net profit
	(RMB) thousand	(RMB) thousand
As reported under PRC accounting standards and enterprise accounting rules:	7,548,409	433,166
Government grants relating to assets	(146,730)	4,696
Tax credit arising from purchase of domestically manufactured machinery and equipment	(40,235)	2,412
Reversal of amortization of goodwill	21,875	
Provision for impairment of goodwill	(75,442)	
Cash considerations paid for share reform of an associate	(71,284)	
Others	(28,973)	(11,491)
reported under IFRS accounting standards	7,207,620	428,783



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## VIII Documents for inspection

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

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

Chongqing Changan Automobile Company Limited

24 August, 2007