Chongqing Changan Automobile Company Limited

2006 Annual Report

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, misguiding statements or significant omissions, and assume individual and joint liabilities for the truthfulness, accuracy and integrity of the annual report.

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

Director Mr. Wang Tingwei was absent for other business reasons. Mr Wang Tingwei entrusted director Mr. Deng Tengjiang, to attend and vote on their behalf, respectively.

The auditor of the Company, PricewaterhouseCoopers Zhong Tian Certified Public Accountants issued an unqualified audit report.

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

Content

II. General Introduction 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. Legal representative of the Company: Mr. Yin Jiaxu

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

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

   Telephone: (023) 67594009

   Fax: (023) 67866055

   Email address: cazqc@changan.com.cn

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

   Post code: 400023

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

   Post code: 400023

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

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

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

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

   Annual Report preparation: Office of the Board of Directors

6. Place of listing: Shenzhen Stock Exchange

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

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

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

   Date of change in registration: September 27, 2004

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

   Business license number: *Yu Zi* 5000001805570

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

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

   Domestic CPA firm: PricewaterhouseCoopers Zhongtian CPA

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

   International CPA firm: PricewaterhouseCoopers Zhongtian CPA

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

III. Extracts of Accounting and Operating Data

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

Profit before tax	568,571
Net profit	434,429
Profit from major business lines	4,312,650
Other operating income	128,381
Operating profit	425,972
Net cash in-flow from operating activities	2,113,851
Net increase in cash and cash equivalents	491,322

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

		Net assets (excluding minority interests)	Net profit attributable to the Company's equity holders
		As at 31 December 2006 RMB'000	For the year ended 31 December 2006 RMB'000
	As reported in the accounts of the Group under PRC accounting regulations	7,306,779	646,750
1.	Staff and workers' bonus and welfare fund charged to income statement	-	(7,650)
2.	Reversal of revaluation made in 1995	(13,739)	858
3.	Deferred income tax	201,320	22,591
4.	Government grants relating to assets	(231,249)	12,412
5	Government grants relating to income	-	28,313
6.	Tax credit arising from purchase of domestically manufactured machinery and equipment	(42,646)	(4,822)
7.	Reversal of amortisation of goodwill	21,875	12,454
8.	Pre-operating expense of Changan Ford Mazda Engine and branch of Changan Ford Mazda Automobile	(301,050)	(195,576)
9.	Provision for impairment of goodwill	(75,442)	-
10.	Liabilities not to be settled	-	2,442
11.	Difference in share of result of associates	(41)	3,877
12.	Cash considerations paid for share reform of an associate	(71,284)	(71,284)
13.	Fair value loss on derivative financial instruments	(16,874)	(16,874)
14.	Others	1,187	938
	As restated in conformity with IFRS	6,778,836	434,429

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

Item	2006	2005	2004
Sales (RMB '000)	25,675,344	19,168,550	18,526,610
Net profit (RMB '000)	434,429	199,309	1,197,215
Total assets (RMB '000)	23,097,030	18,793,387	14,848,265
Shareholders' equity (RMB '000)	6,778,836	6,440,137	6,759,500
Earnings per share (yuan/share)	0.27	0.12	0.84
Net assets per share (yuan/share)	4.18	3.97	4.17
Adjusted net assets per share(yuan/share)	3.98	3.67	4.15
Net cash flow from operating activities per share(yuan/share)	1.30	0.84	0.90
Return on net assets (%)	6.41	3.09	17.71

IV. Changes in Shareholdings and Information about Shareholders

1. Changes in shareholdings (Unit: share)

	Balance before current change		Addition and Deduction					Balance after change	
	Quantity	Rate	Additional issued	Bonus share	Transfer from accumulated fund	Others	Subtotal	Quantity	Rate
I. non-circulated shares	850,425,966	52.47%		-112,135,435	0	-22,025	-112,157,460	738,268,506	45.55%
1. State-owned shares	0	0.00%	0	0	0	0	0	0	0.00%
2. State-owned legal person shares	850,399,200	52.47%	0	-112,144,000	0	0	-112,144,000	738,255,200	45.55%
3. Other domestic-holding shares , including:	26,766			8,565		-22,025	-13,460	13,306	
Domestic legal person shares									
Domestic natural person shares	26,766			8,565		-22,025	-13,460	13,306	
4. Foreign-hold shares, including:									
Foreign legal person shares									
Foreign natural person shares									
II. Circulated shares	770,423,234	47,53%		112,135,435		22,025	112,157,460	882,580,,694	54.45%
1. Domestic listed RMB shares	350,423,234	21,62%		112,135,435		22,025	112,157,460	462,580,,694	28.54%
2.Domestic listed foreign shares	420,000,000	25.91%						420,000,000	25.91%
3.Overseas listed foreign shares									
4. Others									
III. Total shares	1,620,849,200	100.00%						1,620,849,200	100.00%

Note: Domestic natural person shares refer to shares held by the Directors.

Listing schedule of non-circulated shares:

Unit: share

Date	Additional shares listed for circulation	Total non-circulated shares	Total circulated shares	Remarks
May 11, 2008	36,912,760	701,355,746	919,493,454	
May 11,2009	36,912,760	664,442,986	956,406,214	
May 11,2010	664,429,680	13,306	1,620,835,894	

2.Issue and Listing of Shares

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

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

(2) In the reporting period, there is no change in total shares. The change in the shareholding structure is caused by the non-tradable shares reform and release of the shares held by the directors and supervisors out of service.

3.Information about the shareholders

(1) The ten largest shareholders information

Unit: share

Total number of shareholders	Totaled 57,337, of which 42,631 were A share shareholders and 14,706 were B share shareholders.				
The ten largest shareholders					
Name of shareholders	Nature of Shareholders	% of total shares	Shares held at the year-end	Non-circulated shares held at the year-end	Pledged/Frozen shares
CHINA SOUTH INDUSTRY AUTOMOBILE COMPANY LIMITED	State-owned	45.55%	738,255,200	738,255,200	0
CMBLSA RE FTIF TEMPLETON ASIAN GRW FD GTI5496	Foreign	2.89%	46,762,817	0	Unknown
National social security fund 108	other	2.22%	36,000,000	0	Unknown
BBH BOS S/A FIDELITY FD-CHINA FOCUS FD	Foreign	1.61%	26,143,200	0	Unknown
BOSHI VALUE ADDED SECURITIES INVESTMENT FUND	other	1.05%	17,000,000	0	Unknown
CHINA CONSTRUCTION BANK－BOSHI VALUE ADDED TWO SECURITIES INVESTMENT FUND	other	0.84%	13,656,108	0	Unknown
CHINA BANK－DA CHENG AFFUENCE MANAGEMENT2020 LIFE WEEK ECURITIES INVESTMENT FUND	other	0.83%	13,489,798	0	Unknown
TEMPLETON EMERGING MARKETS INVESTMENT TRUST	Foreign	0.73%	11,837,000	0	Unknown
YUYANG SECURITY INVESTMENT FUND	Other	0.68%	10,999,540	0	Unknown
CHINA CONSTRUCTION BANK－YINGHUA AFFUENCE TOPIC SECURITIES INVESTMENT FUND	Other	0.62%	10,074,000	0	Unknown

The ten largest circulated shareholders		
Name of shareholders	Shares at the year end	Type of shares
CMBLSA RE FTIF TEMPLETON ASIAN GRW FD GTI5496	46,762,817	B share
NATIONAL SOCIAL INSURANCE FUND PORTFOLIO 108	36,000,000	A share
BBH BOS S/A FIDELITY FD –CHINA FOCUS FD	26,143,200	B share
BOSHI VALUE ADDED SECURITIES INVESTMENT FUND	17,000,000	A share
CHINA CONSTRUCTION BANK－BOSHI VALUE ADDED TWO SECURITIES INVESTMENT FUND	13,656,108	A share
CHINA BANK－DA CHENG AFFUENCE MANAGEMENT2020 LIFE WEEK ECURITIES INVESTMENT FUND	13,489,798	A share
TEMPLETON EMERGING MARKETS INVESTMENT TRUST	11,837,000	B share
YUYANG SECURITY INVESTMENT FUND	10,999,540	A share
CHINA CONSTRUCTION BANK－YINGHUA AFFUENCE TOPIC SECURITIES INVESTMENT FUND	10,074,000	A share
CHINA CONSTRUCTION BANK－XINGCHENG QUINTESSENCE DEVELOPMENT SECURITIES INVESTMENT FUND	9,850,000	A share

Explanation on the relationship and the action alike of above shareholders	Among the largest ten share holders, the state-owned legal person shareholder China South Industry Automobile Co., Ltd. had no relationship with other share holders, and nor was the party who agreed to act alike as stipulated in *Administrative Measures on Information Disclosure Concerning Changes in Shareholdings of Listed Companies*. The company did not know whether there was relationship among the large ten circulated shareholders , and nor knew whether they were the parties who agreed to act alike as stipulated in *Administrative Measures on Information Disclosure Concerning Changes in Shareholdings of Listed Companies.*

(2) The ten largest non-circulated shareholders information:

Number	Name of the shareholder	Non-circulated shares	Due Date permitted to circulate	Additional shares for circulation	Circulation conditions
1.	China South Industry Automobile Co., Ltd	738,255,200	May 11, 2008	36,912,760	Within 24 months upon the day when original non-circulated shares are granted for circulation permit, the original non-circulated shares are not permitted for exchange and transfer in the market. After the above mentioned 24 months, the non-circulated shareholder are permitted to list and sell these shares in the stock exchange, not more than 5% of the total shares of the company within 12 months, not more than 10% within 24 months.
			May 11, 2009	36,912,760	
			May 11, 2010	664,429,680	

3. Changes on controlling shareholder and the ultimate parent of the controlling shareholder

According to the Recombination scheme of the ultimate parent of the controlling shareholder–China South Industries Group in the aspects of automobile business, China South Industries Group will transfer the state-owned shares 850,399,200 held by Changan Automobile Group Company (CAC) into China South Industry Automobile Co.Ltd as its contribution. The shares held by CAC was transferred into China South Industry Automobile Co.Ltd on Mar 30th,2006. Then China South Industry Automobile Co.Ltd held the Company's State owned shares 850,399,200, accounting for 52.47% of total shares, and became the controlling shareholder of the Company, while Changan Automobile Group Company didn't hold the Company's share any longer. After completion of the non-tradable shares reform on May 11, 2006, the share rate of the China South Industry Automobile Co., Ltd. decreased from 52.47% to 45.55%.

4. The controlling shareholder

Controlling shareholder: China South Industry Automobile Co.Ltd

Legal representative: Xu Bin

Date of establishment: Dec 26^{th}, 2005

Registered capital: RMB 4,582,373,700 Yuan

Business scope and major products: Automobile, motorcycle, Engine of automobile and motorcycle, designing, development, manufacture, and sales of automotive and motor cycle components and parts; sales of Optical products, electronic and photoelectron products, night-time vision device, information and communication equipment; technical development, technical transfer, technical consultation, technical training, and other technical service relative with the operation mentioned above; imports and exports; merge and acquisition and consultation of assets restructuring.

5.The ultimate parent of the controlling shareholder

The ultimate parent of the Company: China South Industries Group Corp.

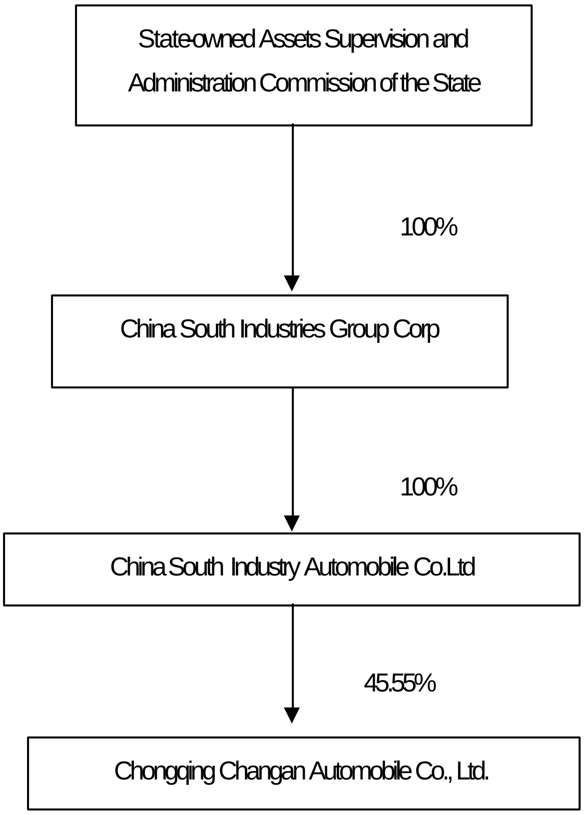
Legal representative: Xu Bin

Date of establishment: June 29, 1999

Registered capital: RMB 12,645,210,000 Yuan

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

6. Relationship among the Company and its controlling shareholders:



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

1.Information about directors, supervisors and senior management

Name	Position	Gender	Age	Term of office	Shares held at year-beginning	Shares at year-end	Reasons for change
Yin Jiaxu	Chairman	M	50	2006.05-2009.05	5,040	6,653	Distributed shares
Xu Liuping	Vice Chairman,	M	42	2006.05-2009.05	0	0	
Zhang Baolin	Director, General manager	M	44	2006.05-2009.05	0	0	
Deng Tengjiang	Director	M	50	2006.05-2009.05	0	0	
Wang Tingwei	Director	M	35	2006.05-2009.05	0	0	
Deng Zhiyou	Director	M	43	2006.05-2009.05	0	0	
Wang Chongsheng	Director	M	48	2006.05-2009.05	5,040	6,653	Distributed shares
Zou Wenchao	Director, Executive Vice President of Changan Ford Mazda Automobile Co.	M	43	2006.05-2009.05	0	0	
Ma Jun	Director	M	47	2006.05-2009.05	0	0	
Cui Yunjiang	Director, Senior Deputy General Manager, Board Secretary	M	43	2006.05-2009.05	0	0	
Guo Konghui	Independent Director	M	71	2006.05-2009.05	0	0	
Xia Donglin	Independent Director	M	45	2006.05-2009.05	0	0	
Gao Zhikai	Independent Director	M	44	2006.05-2009.05	0	0	
Wen Zongyu	Independent Director	M	43	2006.05-2009.05	0	0	
Liu Wei	Independent Director	M	42	2006.05-2009.05	0	0	
Shi Yubao	Organizer of the Board of Supervisors	M	53	2006.05-2009.05	0	0	
Cui Xiaomei	Supervisor	F	51	2006.05-2009.05	0	0	
Cao Dongping	Supervisor	F	53	2006.05-2009.05	0	0	
Xiong Huilin	Supervisor	F	47	2006.05-2009.05	0	0	
Zhu Zhiping	Supervisor	M	44	2006.05-2009.05	0	0	
Hua zhanbiao	Supervisor	M	39	2006.05-2009.05	0	0	
Fu Xiangyu	Supervisor	F	51	2006.05-2009.05	0	0	
Ying Zhanwang	Senior Deputy General Manager	M	47	2006.05-2009.05	0	0	
Zhu Huarong	Senior Deputy General Manager	M	41	2006.05-2009.05	0	0	
Huang Zhongqiang	Senior deputy general manager	M	38	2006.05-2009.05	0	0	
Jia Tingyue	Senior Deputy general manager	M	43	2006.05-2009.05	0	0	
Zou Yi	Senior Deputy General manager	M	43	2006.05-2009.05	0	0	
Ren Qiang	Deputy general manager	M	46	2006.05-2009.05	0	0	
Song Jia	Deputy general manager	M	41	2006.05-2009.05	0	0	
Luo Minggang	Deputy general manager	M	43	2006.05-2009.05	0	0	
Li Jun	Board Secretary	F	37	2006.05-2009.05	0	0	

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

Name	Shareholder Company	Position	Term of office
Yin Jiaxu	China South Industry Automobile Co., Ltd	Executive Director, President	2005.12-
Xu Liuping	China South Industry Automobile Co., Ltd	Executive Director, Senior Vice President	2005.12-
Deng Tengjiang	China South Industry Automobile Co., Ltd	Non-executive Director	2005.12-2007.1.5
Deng Zhiyou	China South Industry Automobile Co., Ltd	Executive Director, Vice President	2005.12-
Wang Tingwei	China South Industry Automobile Co., Ltd	Executive Director	2005.12-2007.1.5
Zhang Baolin	China South Industry Automobile Co., Ltd	Executive Director	2006.12-

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

(1) Directors

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

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

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

Mr. Deng Tengjiang, Director, was born in 1956. He has obtained a post-graduate degree and professorship and used to be Department Head and School Vice Dean at Chongqing Industries College. He also used to be Vice General Manager of North Industry Finance Co. of China Industries Company, Vice General Director of South-west Industries Bureau in China South Industries Group Corp., and Vice General Manager, General Manager of Jianshe Industries Group Corp, and Director of the Audit Department of China South Industries Group Corp. He currently serves as Director of Financial department in China South Industries Group Corp, and Non-Executive Director of China South Industry Automobile Co., Ltd.

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

Mr. Deng Zhiyou, Director, was born in 1963. He has a Master's Degree in Engineering, EMBA, is a senior engineer. He used to serve as Workshop Director, Assistant to Plant director, Chief Finance Officer, Vice Director of Plant, Deputy General Manager, and General Manager of Chongqing Qsingshan Industries Co.,Ltd., Vice Director and Director of Business Operation Department, Director of South-west Department, Director of Automobile Department of China South Industries Group Corp. He currently serves as Executive Director and Vice President of China South Industries Automobile Co.,Ltd.

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

Mr. Zou Wenchao, Director, and Executive Vice President of Changan Ford Mazda Automobile Co. He has a Master's Degree in Engineering, is a senior engineer. Born in 1963, he used to serve as Vice Director of Workshop No.22 and Vice Director of Vehicle Development Institute in Jiangling Machinery Factory, Vice Director of Planning Department of Automobile Bureau in China Industries Company, Section Chief and Vice Director of Planning Department , Assistant to General Manager, Vice President of CAC.

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

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

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

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

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

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

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

(2) Supervisors

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

Ms. Cui Xiaomei, Supervisor, was born in 1955. She has obtained two Bachelor's Degrees, is a senior economist. She used to serve as Vice Director of Final Assembly Workshop in Jiangling Machinery Plant, Plant Vice Director, Vice Director of Planning Department, and Vice Director of Foreign Trade in Sub-Plant One, Party Secretary of Precision Mechinery Plant in CAC, Senior Deputy General Manager and Party Secretary of Changan Automobile Sale Company, Assistant to President of CAC, Deputy General Manager of Changan Suzuki Automobile Company, Deputy General Manager of the Company. She currently serves as Deputy Secretary of the Party Committee and Secretary of the Discipline Committee of CAC.

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

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

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

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

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

(3) Senior Management other than Directors and Supervisors:

Mr. Ying Zhanwang, Senior Deputy General Manager, Vice President of Changan Ford Mazda Automobile Company, and General Manager of Plant Two of Changan Ford Mazda Automobile Company. Born in 1959, he has a Master's Degree in Engineering, a researcher and senior engineer. He used to serve as an engineer of the Engine Plant in Nanjing Automobile Manufacturing Plant, Chief of Technology Office of Technology Institute in Changan Machinery Plant, Vice Director of Technology Institute Two, Vice Director of Technical Department, Director of Planning Department, Assistant to President, Vice President of CAC.

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

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

Mr. Jia Tingyue, Senior Deputy General Manager, was born in 1963. He is a graduate, and is a senior engineer. He used to be Vice Director of Machinery and Power Supply Department of Changan Machinery Factory, Vice Director of the Engineering Design Institute of CAC, Vice Chief Engineer, Vice Manager and Manager of the Automobile Manufacturing Factory of the Company, and Vice President of CAC.

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

Mr. Ren Qiang, Deputy General Manager, and Executive Vice President of Jiangling Holding Co., was born in 1960. He has a Master's Degree in Engineering, is a senior engineer. He used to serve as Vice Secretary of the Youth League Committee of the No.2 Textile Machinery Plant at Shaoyang City,Hunan Province, Vice Chief of Non-standard Product Design Office and Vice Director of General Design Institute of Changan Machinery Plant, Vice Director of Construction Institute, Vice Director and Director of Development Planning Department of CAC, and Assistant to President of CAC, General Manager of Changan Jinling Parts Company, and Vice President of CAC.

Mr. Song Jia, Deputy General Manager, and General Manager of Changan Automobile Sales Company, was born in 1965. He has a Master's Degree in Engineering, is a senior engineer. He used to serve as Vice Director of Civil Products Institute, Vice Chief Engineer, Director of Automobile Institute, and Deputy Manager of Changjiang Electronics Plant, Deputy General Manager of Changan Automobile Sales Company, General Manager of Hebei Changan Company, Assistant to President, and Vice President of CAC.

Mr. Luo Minggang, Deputy General Manager, and Executive Vice President of Changan Ford Mazda Engine Company, was born in 1963. He has a Master's Degree in Engineering, is a senior engineer. He used to serve as Vice Director of Workshop No.26, and Director of Technology Department of Jiangling Machinery Plant, Director of No.1Technology Institute of CAC, Director of Engine Technology Department and Vice Chief Engineer of Automobile Manufacturing Factory, Vice Director of Technical Center, Deputy Manager of Engine Manufacturing Factory, Deputy Manager and Chief Engineer of Automobile Manufacturing Factory, Vice Director of Changan Automotive Engineering Institute, Assistant to President of CAC.

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

3.Remuneration of the year

In 2006, the annual remuneration for the directors, supervisors and senior management had been duly paid by month according to the relevant policy on management salary and by ranks and grades set by China South Industries Group.

Name	Position	Remuneration in 2006(In RMB 10 thousand)
Zhang Baolin	Director, General Manager	40.12
Zou Wenchao	Director, Executive Vice President of Changan Ford Mazda	40.78
Cui Yunjiang	Director, Senior Deputy General Manager, and Board Secretary	34.03
Guo Konghui	Independent Director	5
Xia Donglin	Independent Director	5
Gao Zhikai	Independent Director	5
Wen Zongyu	Independent Director	5
Liu Wei	Independent Director	5
Cui Xiaomei	Supervisor	26.51
Xiong Huilin	Supervisor	13.37
Zhu Zhiping	Supervisor	12.8
Hua Dubiao	Supervisor	12.25
Fu Xiangyu	Supervisor	7.46
Ying Zhanwang	Senior Deputy General Manager	40.7
Zhu Huarong	Senior Deputy General Manager	40.02
Huang Zhongqiang	Senior Deputy General Manager	40.7
Jia Tingyue	Senior Deputy General Manager	40.02
Zou Yi	Senior Deputy General Manager	40.7
Ren Qiang	Deputy General Manager	21.7
Song Jia	Deputy General Manager	36.8
Luo Minggang	Deputy General Manager	12.8
Li Jun	Board Secretary	7.8

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

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

Chairman: Yin Jiaxu, Vice Chairman: Xu Liuping, Directors: Deng Tengjiang, Wang Tingwei, Deng zhiyou, Wang Chongsheng and Ma Jun, Organizer of the Board of Supervisors: Shi Yubao, Supervisor: Cao Dongping.

4. During the reporting period, the following directors, supervisors, senior managers have left their post:

During the reporting period, Mr. Zhao Luchuan, Mr. Guo Xuewu were no longer the directors of the Company due to employment change, and Mr. Deng zhiyou, Mr. Zou Wenchao were appointed to the position of the directors of the Board of the Directors' fourth meeting.

During the reporting period, Mr. Peng Minggeng and Madam Zhou Xiaying were no longer the supervisors of the Company due to employment change and retirement, and Madam Cui Xiaomei was appointed to the position of the supervisor of the Board of the Directors' fourth meeting.

5.The Employees of the Company

By the end of the year, total headcount of the Company was at 8,167, including 4,063 production workers, 1,210 salespersons, 1,282technicians, 317 finance staff, and 220 administrative staff, and 1075 others. Of the total, there were 7 with doctorate degree, 131with master degree, 1,966 with bachelor degree, and 1,453 with college education or above.

The Company should pay the piper for 1,379 retired employees.

VI Corporate Governance

1. Corporate Governance

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

2. The Independent Directors

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

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

Name of Independent director	Times of Attendance Required	Times of Attendance in Person	Times of Entrusted Attendance	Times of Absence	Remarks
Guo Konghiu	8	5	1	2	
Xia Donglin	8	8			
Wen Zongyu	8	7	1		
Gao Zhikai	8	8			
Liu Wei	8	8			

(2) Negative opinions raised by the Independent Directors during the reporting period.

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

3. The 5 Areas of Segregation

(1) Operation:

The main business scope of the Company includes the development, manufacture and sale of automobiles, engines and automobile related parts. The main business has been approved by government authorities and the Company does not solely rely on any other entity. The Company has the technology, production capacity and sales employees related to its business scope and can undertake the operations independently.

(2) Assets:

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

(3) Employee:

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

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

(4)Organization:

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

(5) Finance:

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

4.Performance Review System of the Senior Management

(1) Performance review system:

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

(2) Incentive system

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

(3) Regulating system

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

(4) The establishment and implementation of the incentive system

The plan of appropriation of incentive fund was passed in the Annual General Meeting of the Company 2004, according to that a certain rate, decided by the Board, of prior year's consolidated net profit is appropriated as incentive fund when the audited Rate of Return on Shareholders' Equity of the prior year reaches 10%. No such fund is appropriated when the audited Rate of Return on Shareholders' Equity is below 10%.

In 2006, the Company has not appropriated incentive fund due to the ratio for appropriation of incentive fund has not yet been achieved. Up to now, the remaining amount is RMB 59.33 million.

VII. Shareholders' general meeting

1. The Board of Directors announced the Shareholders' general meeting for the non-tradable shares reform on March 20, 2006 through China Securities, Securities Daily and Shanghai Securities News. And the meeting was held on April 24, 2006 at Holiday Inn North Chongqing. The resolutions were announced on China Securities, Securities Daily and Shanghai Securities News on April 26, 2006.

2. The Board of Directors announced 2005 Shareholders' general meeting on April 15, 2006 through China Securities, Securities Daily and Hong Kong Business. The meeting was held on May 15, 2006 at Holiday Inn North Chongqing. The resolutions were announced on China Securities, Securities Daily and Hong Kong Business on May 16, 2006.

3. The Board of Directors announced the First Session of the Temporary Shareholders' general meeting 2006 on June 10, 2006 through China Securities, Securities Daily and Hong Kong Business. The meeting was held on June 26, 2006 at multimedia meeting room in Chongqing Changan science and technology building. The resolutions were announced on China Securities, Securities Daily and Hong Kong Business on June 27, 2006.

VIII. Report of the Board of Directors

1. Review for the business in the reporting period

(1) General operation status in the reporting period

A. Industrial status in the reporting period

In 2006, in the face of drastic market competition outside and tremendous management pressure inside, on the basis of science logos, the company has advanced a target for the new period —— "T35 business leading plan". In the year, the company always insisted on three instructions of "Target, trend, questions", followed three principles of "Grasping regularity, abounding in creativity, possessing operation" and has fulfilled all tasks successfully.

a. Enhanced the service and strengthened the marketing. During the report period, the company strengthened sales network construction and structure reformation, the sales system for cars with own IPR has been basically set up.

b. Strengthened the independent development capacity and built up the product competition. During the report period, all independent developed projects in progress went smoothly and successfully, the first independent developed car "Benben" launched into the market successfully and got good reputation.

c. Worked on the management of and financing and cost control. Promoted finance to be transformed from "budget & auditing" to "management", the cost and risk controlling ability of the company have been improved.

d. Worked on safety management, improved production, promoted CPS management, improved site management and upgraded quality control system.

e. Worked on purchasing management, built up the logistics purchasing platform, implemented centralizing purchasing policy, enhanced the management of the suppliers and heightened the competitiveness of the supplying chain.

f. Worked on joint venture and cooperation, group management and controlling have been promoted and group management and controlling platform has been built-up.

g. Worked on overseas market, enhanced the exploitation of the overseas markets, overseas stratagem has been formed.

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

B. Overall business operations

Item	2006	2005	Variable ratio comparing to the same

			period (%)
~~Sales~~	25,675,344	19,168,550	33.95%
Profit from major business lines	4,312,650	3,034,603	42.12%
Net profit	434,429	199,309	117.97%

During the reporting year, a 33.95% in Profit of sales increase from 2005, mainly due to the sales of Changan Ford Mazda increased 851,003 ten thousand.

During the reporting year, a 42.12% in Profit of sales and a 117.97% In net profit increase from 2005, mainly due to the Profit of sales and net profit of Changan Ford Mazda increased .

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

The Company was mainly engaged in the development, manufacture and sales of mini cars and vans, multifunction vehicles and sedans including Changan Star mini-car series, Changan mini-van, Changan Benben, Changan Suzuki's Alto mini sedans, Lingyang, Swift and Suzuki SX4, Changan Ford's Focus, Mondeo, Mazda 3 and Volvo S40, Jiangling holding's Landwind multifunction vehicles and the manufacture and sales of various types of Jiangling brand engines.

In 2006, the Company totally produced 538,132 vehicles, a 9.96% increase from 2005. And a total number of 553,458 vehicles were sold, a 16.61% increase from 2004, among which 279,033 minivans were sold, 84,561mini-trucks sold, 182,021 sedans sold (Changan Ford sales volume is consistent with the consolidation table, accounting for 50% of its total sales).

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

Line of business/product	Sales		Cost of sales		Gross margin rate (%)	
	Amount	Fluctuation from 2005	Amount	Fluctuation from 2005	Amount (%)	Fluctuation from 2005
line of business						
Vehicle manufacturing	2,567,534	33.95%	2,042,613	32.43%	16.74%	5.22%
Main business						
Mini-car	1,035,138	0.76%	878,652	5.76%	11.42%	-26.37%
Sedan	1,360,819	67.16%	1,026,497	56.89%	20.87%	30.36%

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

Domestic/Foreign	Sales	Fluctuation from 2005

Domestic	2,520,170	33.05%
Foreign	47,364	108.84%

c. Major suppliers and clients

In 2006, gross purchase by the Company from the top five suppliers accounted for 316,279, 14.99% of total purchase of the year; and gross revenue from the top five clients accounted for 236,096, 9.20% of the total revenue of the Company.

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

Entity	Registered Capital	Attributable Equity	Principal activities	Total assets	Sales	Net Profit
Chongqing Changan Suzuki Automobile Co., Ltd.	USD 7,000	51%	Manufacture and sale of automobiles and spare parts	347,616	513,869	21,879
~~Changan Ford Automobile Co. Ltd.~~	USD 28,263.9	50%	Manufacture and sale of automobiles and spare parts	1,047,280	1,733,284	133,134
Nanjing Changan Automobile Co., Ltd.	60,181	71.86%	Manufacture and sale of mini auto-mobiles and spare parts	109,227	70,793	-18,071
Hebei Changan Automobile Co., Ltd.	26,469	77.72%	Manufacture and sale of auto-mobiles and spare parts	133,985	380,313	1,870
Jiangxi Jiangling Holding Co., Ltd.	100,000	50%	Investment	273,377	70,753	-2,848
Changan Ford Mazda Motor Co., Ltd	USD 13,920	50%	Manufacture and sale of engine and spare parts	239,064	-	-
Chongqing Changan Sales Offices	11,836	80%-100%	Sale of automobiles and spare parts	94,225	758,706	-5,014
Chongqing Changan Automobile Import and Export Co., Ltd.	1,376	95%	Import and export, wholesale and retail of automobiles and spare parts	26,972	11,391	159
Chongqing Changan Automobile Sales Co., Ltd.	4,850	100%	Sale of automobiles, engines and etc.	8,256	391	5
Chongqing Changan Special Automobile Co., Ltd.	500	50%	Sale of special automobiles and spare parts, automobile repair	3,171	20,241	15
Chongqing Changan Service Co., Ltd.	3,000	99%	Sale of automobiles and spare parts	9,125	27,235	255
Chongqing Anfu Automobile Co., Ltd.	3,200	50%	Sale of automobiles and spare parts	15,754	83,768	1,244
Chana Automobile Europe Device Centre Co., Ltd.	EURO10	100%	Device	97	-	-

(2) Prospect for the further development

A. Prospect for the further development

First, China market is growing up quickly and with a big potential. The auto sales in 2006 in China was more than 7 Million and thus made China the second biggest consumption country. According to the macro circumstance, with rapid rising of Chinese economic and new country construction, China auto market will have an extensive, current and potential development opportunity

Secondly, competition will be more strong but more reasonable. As China is a new rising market, it will become the main war field for these MNC. Competition of scale, new products and price will be vehemently but rationally, the competition of price will be changed mainly to the competition of service.

Thirdly, Independent brand will be developed quickly but faced with challenge. Along with a series of encouraging policies from the government, independent development capability has been paid highly attention. Besides, joint ventures have brought forward their intention to have their own independent brands, and these independent brands, with JV background, will become a big threat and challenge to the independent brands of Chinese companies.

Fourthly, overseas exploiting will ascend to stratagem. The whole industry will speed up exporting business; all companies will start to pay attention to exporting, boost their overseas stratagem, seek for the possibility of building production line abroad, breed & construct their brands in the overseas market and even participate into the conformity of foreign companies.

Fifthly, polarization will prick up. Although China auto industry is growing up, polarization between companies will prick up.

Anyway, China market is growing up quickly with turbulence, polarization, growing, washing out and combination, and the market pattern has not yet formed. After being developed for many years, the stratagem of the company becomes clearer, layout of production bases is more reasonable, services network is more functional, independent innovation has become effective; the conditions for further development have been created.

B. Operating Plan for 2007

In 2007, the Company will be sticking on the strategy guidelines that the development is based on Mini-cars, focused on sedans, expanding on commercial vehicles, advancing into the service and exploring overseas markets. Therefore, by the opportunity of further implementing the Company's Business Leading Plan, under the main thread of deepening the innovations and strengthening the execution, the Company will endeavor to accelerate independent innovations, promote the brand building, push forward overseas strategy, upgrade marketing and service level, promote human resources team building, so as to improve the profitability, growth ability and innovation ability, make all operation indicators reach domestic leading level, sell 650,000 vehicles annually with RMB 30 billion Yuan sales revenue.

C. Requirement for capital in 2007

For the operating and producing objective of 2007, it is estimated that liquidity in amount of 800 million-1,000 million will be needed for running, part of which comes from it owned fund and cash receipt of sales, and part of which comes from short-term bond and loan.

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

In 2007, the primary risks which the Company will meet include:

a. Market risk: the intensive competition in China's automobile market, fluctuation of raw materials's price, and diversity of customers' demand result in the uncertainty of profit in automobile market in future.

b. exchange rate risk: the condition of continual RMB appreciation will weaken the competition of products in international market; but save the purchase cost of spare parts imported.

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

(1)Continue work on cost reduction, make a point of controlling cost in three cycles, respectively that of development in new product, manufacture and production, marketing and service to implement leading cost strategy.

(2)Keep improving product quality, upgrade the competitiveness; develop new products , improve independent innovation ability; better customer service and marketing to exploit both in domestic and overseas market; explore human resource to establish a supporting system of the talented persons.

(3)Make good use of the various financial tools to weaken the influence from the fluctuation of exchange rate.

2. Investments of the Company in the reporting period

(1) Analysis of the Company's investment

Up to Dec.31, 2006, the long term investment of the company is152,602 ten thousand, increased 6,537 ten thousand than that of last year,,See the business operation information and results of the major subsidiaries and joint-ventures for details.

(2) The use of proceeds from previous public offering

There is no use of proceeds from previous public offering.

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

No.	Investment project	Funds injected	Project stage	Earnings
1	Automobile production line	10,786	In progress	Included in the overall earnings of the Company
2	Engine production line	1,090	In progress	
3	Technology Development Centre	1,991	In progress	
4	ERP project	759	In progress	
5	Industry Zone	1,431	In progress	
6	Others	520	In progress	
Total		16,577		

3. The work of the Board of the Directors

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

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

A. The twentieth session of the Board of the Directors' third meeting was held on Jan. 19, 2006, and the proposal of appointing Mr. Zhang Baolin as the general manager was passed through conference call.

B. The twenty-first session of the Board of the Directors' third meeting was held on Feb.17, 2006, and the proposal of voting Mr. Xu Liuping as Vice Chairman of BOD was passed through conference call.

C. The twenty-second session of the Board of the Directors' third meeting was held on April.13, 2006, and the following proposals were passed:

(a). Report of the Board of the Directors for the year 2005

(b). Report of the general manager for the year 2005

(c). Annual financial report and the extract for the year 2005

(d). Final financial settlement for the year 2005

(e). Profit distribution scheme for the year 2005

(f). The proposal of election at expiration of BOD

(g). The proposal of amendment of Articles of Association

(h). The proposal of amendment of Regulations on Shareholders' general meeting

(i). The proposal of amendment of Regulations on Board of Directors

(j). Related party transaction for the year 2006

(k). The proposal of increase of investment 87.5Million USD to Changan Ford

(l). Notice of holding General Meeting for the year of 2005

D. The fourteenth session of the Board of the Directors' third meeting was held in the Company on April 28, 2006, and the financial report for the quarter one of year 2006 was passed through conference call.

E. The first session of the Board of the Directors' fourth meeting was held on May 15, 2006, and following proposals were passed through conference call:

(a) The proposal of election of Chairman and Vice Chairman of BOD.

(b) The proposal of appointing senior managers.

F. The second session of the Board of the Directors' fourth meeting was held on June 6, 2006, and following proposals were passed through conference call:

(a) The proposal of accreditation of Hebei Changan and Nanjing Changan, which are Changan's major subsidiaries, entering the financial network agreement for auto sales.

(b) The announcement of holding the First Session of the Temporary Shareholders' general meeting 2006

G. The third session of the Board of the Directors' fourth meeting was held on August 21, 2006, and the following proposals were passed:

(a)The semi-annual financial report and the extract for the year 2006

(b) Reappointment of the auditor.

H. The fourth session of the Board of the Directors' fourth meeting was held on Oct. 27, 2006, and the financial report for the third quarter of 2006 was discussed and passed through conference call.

(2) Accomplishment of resolution passed in the General Meeting:

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

A. Profit distribution

Based on the profit distribution scheme passed in the General Meeting on May 15, 2006, the Company's Board of the Directors announced the dividend distribution in <China Security>, <Security Times> and <Hong Kong Business Express> on July 5, 2006 and execute the scheme accordingly.

B. Further capital injection in Changan Ford Mazda Co., Ltd.

Based on the approval of the Shareholders' general meeting held on May 15, 2006, the capital increase investment in Changan Ford Mazda Co., Ltd. in amount of 87.5 million USD, the company completed the procedures in July 22, 2006.

C. Reform of non-tradable shares

Based on the approval of the Shareholders' general meeting held on April 24, 2006, the proposal of reform of non-tradable shares, the company completed the necessary procedures in May 11, 2006.

D. Accrediting Hebei Changan and Nanjing Changan enter the financial network agreement for auto sales.

Based on the approval of the Shareholders' general meeting held on June 10, 2006, Accreditation of Hebei Changan and Nanjing Changan entering the financial network agreement for auto sales, the company gave the suppliers of Hebei Changan and Nanjing

Changan the financing support by using Changan's credit in China Everbright Bank and China Citic Bank, and thus promoted the sales of Hebei Changan and Nanjing Changan effectively.

4. The draft scheme for the profit distribution or transferring capital reserve into share capital of 2006

The net profit of 2006 is RMB646,749,740 (RMB 434,429 thousand under IFRS), add the retained earning RMB 1,520,867,418 and the profit available to be distributed is RMB 2,167,617,158. Transfer from statement of income to statutory reserve fund is RMB 60,243,123, As to Changan Suzuki and Chang Ford, who was included in the consolidation scope, the transfer to staff bonus and welfare fund is RMB 7,650,000, to reserve fund is RMB 87,362,727, to enterprise expansion fund is RMB28,202,727. The retained earning is RMB 1,984,158,581 and the common share dividend transferred to the capital RMB 97,250,952 and the result is RMB 1,886,907,629 (RMB 1,683,359 thousand under IFRS).

The proposal for profit distribution of 2006 is: base on the total capital stock of 1,620,849,200 shares, thd cash dividend is RMB0.6 and the bonus share is 2 shares (including tax) per 10 shares, totally RMB97,250,952 and 324,169,840 bonus shares were distribut ed (including tax). This proposal will be put in the Shareholders' general meeting for approval.

5. Other Matters

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

IX Report of the Board of the Supervisors

1. The basic information of the meeting

During the reporting period, there are five meetings of the Board of the Supervisors

(1) The seventh session of the Board of the Supervisors' third meeting was held on April 13, 2006 and the report of the Board of the Supervisors for the year 2005, the annual financial report and the extract for the year 2005, the final financial settlement for the year 2005, and proposal of the Board of the Supervisors' election were discussed and passed.

(2) The eighth session of the Board of the Supervisors' third meting was held on April 28,2006 and the financial report of the first quarter was passed through conference call.

(3) The first session of the Board of Supervisors' fourth meeting was held on May 15,2006 and the proposal of electing Mr. Shi Yubao as the chairman of the Board of Supervisors was discussed and passed.

(4)The second session of the Board of the Supervisors' fourth meeting was held on August 21, 2006, and the semi-annual financial report and the extract were discussed and passed.

(5) The third session of the Board of the Supervisors' fourth meting was held on Oct.27, 2006 and the financial report of the third quarter was passed through conference call.

2. The working result of the Board of the Supervisors

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

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

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

(2) Review of the financial status of the Company

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

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

During the reporting period, the company has no public offerings being used during the reporting period.

Through its review, the Board of Supervisors was of the view that the non-public capital was mainly invested in technology refresh of the vehicle and engine production line.

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

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

(5) Supervision of the related party transaction

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

X. Important Matters

1. Major litigations and arbitrations of the year

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

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

JIangling Holding acquisited Jiangling Landwind whole shares in March ,2006.

3. Significant related party transactions

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

(1) Transaction Category ——. Purchase of materials and sales of automobile

In the reporting period, the Company purchased automobile spare parts from Chongqing Changan Jinling Vehicles Parts Co., Ltd with the market price. The total transaction amount is RMB 585,769,831， which comprises 2.78% of the total transaction amount with same nature. The Company also sold raw materials to it at market price with total transaction amount of RMB75,278,061, which comprises 0.29% of the total amount of the same nature of transaction.

In the reporting period, the Company purchased automobile spare parts from Jian An、Ling Jiang 、 Tsingshan of China South Industry Automobile Co.Ltd at market price. The total transaction amount is RMB 562,905,686, which comprises 2.67% of the total amount of the same nature transaction. The Company also sold raw materials to it at market price with total transaction amount of RMB3,563,147, which comprised 0.01% of the total transaction amount with same nature

In the reporting period, the Company sold automobile to Chengdu Wanyou Economic Technological Development Co.,Ltd at market price. The total transaction amount is RMB 575,283,866 , which comprises 2.24%% of the total amount of the same nature transaction.

In the reporting period, the Company sold automobile from Chongqing Wanyou Economic Development Co., Ltd. at market price. The total transaction amount is RMB 565,254,032, which comprises 2.20% of the total amount of the same nature transaction. The Company also purchased automobile spare parts from it at market price with total transaction amount of RMB71,043,880, which comprised0.34% of the total transaction amount with same nat ure.

(2) Impact on the Company

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

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

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

4. Major contracts and their fulfillment

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

According to the production needs, the Company rented the office building of Changan Automobile Group Company's Sales Company, the total area is 4,560 square meters, the monthly rental is RMB 40 per sq. m., the remaining building is 37,158.1 square meters and monthly rental is RMB 35 per sq. m. The Company rented land of CAC of 621,157.3 square meters, monthly rental is RMB 15 per sq. m. CAC rented the offices of 5th, 8th, 9th and 10th floors of the Science and Technology Building of the Company due to office needs, the area is 9,056 square meters and monthly rental is RMB 40 per sq. m.

(2) Major guarantee

In order to support the development of the dealers, better make use of the financial tools offered by the banks, expand the financing channels, strengthen the ability of the dealers and promote the sales of the Company, the company signs *the Auto Sales Finance Service Network Protocol* with China Everbright Bank and Citic Bank. The banks mentioned above grant the company with stated credit ability that is used only for opening accepted document for the dealers. In order to promote the sales of Hebei Changan and Nanjing Changan, the company authorizes Hebei Changan and Nanjing Changan to use part of the credit ability. For Everbright Bank, Hebei Changan can use 80 million while Nanjing Changan can use 20 million. For Citic Bank, Hebei Changan can use 120 million while Nanjing Changan can use 80 million. The dealers of Hebei Changan and Nanjing Changan can use the acceptance opened under the protocol mentioned above to buy the vehicles of Hebei Changan and Nanjing Changan. When the acceptance period expire, if the dealers of Hebei Changan or Nanjing Changan cannot hand in the amount of money got from the bank, the sales period can be lengthened for three months. In case when the three months postpone period expire when the dealers cannot sell the inventory vehicles, the company will buy the vehicles according to the repurchase price and deposit enough money to the designated account of the bank in time.

Hebei Changan and Nanjing Changan promise that if they should take the re-purchase responsibility under the protocol, they would hand the amount of money the company deposit to designated account of the bank within three days and deal with the problems arising from the delay.

The amount of credit ability used by Hebei Changan and Nanjing Changan: during the reporting period, the dealers of Heibei Changan used 162million accepted document and the dealers of Nanjing Changan used 9million. By the end of the reporting period, the unsettle acceptance of the Hebei Changan's dealers is 69.2109million while that of Nanjing's dealers is 5739100.

(3) Asset entrustment matters

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

5. Commitment.

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

By May 11,2006, the non-tradable share reform has been complete.

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

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

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

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

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

In RMB Ten thousand

Year	Auditor	Audit fees	CAS Equity Reconciliation Review	Note

			fees	
2006	Pricewaterhouse Coopers Zhongtian CPA	RMB350	RMB 200 Thousand	The Company provided Commodation and bear |traveling expense 230 |thousand.

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

7. During the reporting period, nor did the Company, the Board and its directors receive any audit and investigation, disciplinary punishment, public criticism nor public censure from China Securities Regulatory Commission, and from the stock exchange.

8. Other important issues.

(1) According to the scheme of recombination of China South Industries Group Corp, the ultimate controller, in the aspect of automobile industry, China South Industries Group Corp planed to transfer the State-owned shares of CAC in amount of 850,399,200 into China South Automobile Co.Ltd as part of the investment capital. The shares transfer from CAC to China South Automobile Co.Ltd has been completed on March 30,2006.

(2)the Company carried out the non-tradable shares reform during the reporting period. With the approval of State-owned Assets Supervision and Administration Commission of the State Council (SASAC) and shareholders' meeting related to the non-tradable shares reform, the shareholders who have the non-tradable shares get the tradable right to deal with their shares to the shareholders who have the tradable shares, that is, the shareholders who have the tradable shares got extra 3.2shares per 10shares and the shareholders who have the non-tradable shares gave 112144000 shares in total to the shareholders who have the tradable shares. The date for registering the share change because of the non-tradable shares reform is on May 10,2006. The shares the tradable shareholders got should be added to their account and the shares mentioned above will be listed on May 11, 2006.after the completion of the share donation, the total capital, the net asset per share and the profit per share is the same. The stake held by the China South Industries Automobile Corp. decreased from 52.47% to 45.55% after the non-tradable shares reform.

(3) During the reporting period, the share structure of Changan Ford changed. Ford Automobile Co. Ltd transferred 15% of its share to Mazda Motor Co. Ltd and another 10% to Ford Asian Pacific Holding Co. Ltd. After that, the share held by the Company in Changan Ford Mazda Automobile Co. Ltd is still 50%. Changan Ford Automobile Co. Ltd was changed into Changan Ford Mazda Automobile Co. Ltd.

(4) The Company officially released its strategy for independent brand sedan, that is, strengthen self-innovation, vigorously develop independent brand sedan, promote industry upgrade and structure optimization, take the market demand as the orientation, take breeding core technology as the emphasis, take promoting quality advantage as the key and create famous sedan brand and launch the brand new logo for independent brand sedan on July 12, 2006.

(5) According to the requirement of Chongqing municipal government on the Southwest Securities' reform and recombination, the Company signed *Share Entrustment Agreement* with Chongqing Yufu Asset Management Co. Ltd that is a state-owned company under the Chongqing municipal government, entrusting Chongqing Yufu Asset Management Co. Ltd to manage the shares held by Changan in Southwest Securities.

(6)The research and interview reception during the reporting period

During the reporting period, the Company received the research and production line visit from domestic and overseas fund management company, securities company, investment institute and so on. During the communication with the investors, related personnel of the company strictly followed the regulation of *Shenzhen Stock and Exchanges's instruction for Information Fair Release for Listed Companies* and *Investors Relationship Management System* of the company, did not selectively or privately release, reveal or disclose non-published important information to special persons or companies, guaranteeing the fairness of information release.

Registration form of research, communication and interview reception etc. during the reporting period

Period	Location	manner	Reception object	Content discussed and material offered
from Jan.to June of 2006	conference room of the Company	oral	Bosera Fund, Citic Securities, Lyons Securities, Xiangcai Securities, Everbright Pramerica, Atlantis Investment Management, GF Fund Management, National Concil for Social Securities Fund, Shanghai Shenyin, Wanguo Securities, Haitong Securities, Hua'an Fund Management Co. Ltd, Pingan Securities, CCB Principal Asset Management Co. Ltd, China Fund, Greatwall Securities, Harvest Fund Management Co. Ltd, Macquarie Securities, Nomura Securities Co. Ltd(Hong Kong) etc.	industry development and Company business situation
2006.07.12 July 12,2006	conference room of the Company	Oral	Lyons Securities, Future Asset Management Co. Ltd ,GE Asset Management Corp.	Industry development and Company business situation
2006.07.12 July 12,2006	conference room of the Company	Oral	Shanghai Investment Morgan Fund Company	Industry development and Company business situation
2006.07.17 July 17,2006	conference room of the Company	Oral	Value Partners Asset Management Company	Industry development and Company business situation
2006.07.18 July 18,2006	conference room of the Company	Oral	China Jianyin Investment Securities	Industry development and Company business situation
2006.07.24 July 24,2006	conference room of the Company	Oral	Pingan Zhengquan, Jianxin Fund, CCB Principal AssetManagement Co. Ltd, Harvest Fund Management Co. Ltd	Industry development and Company business situation
2006.07.27 July 27,2006	conference room of the Company	Oral	Northeast Securities, Pingan Securities, China Southern Fund Management Co. Ltd, West China Securities, Citicpru Fund	Industry development and Company business situation

2006.08.15 Aug.15, 2006	conference room of the Company	Oral	Deutchland Bank	Industry development and Company business situation
2006.08.24 Aug.24, 2006	conference room of the Company	Oral	Yinhua Fund Management Company	Industry development and Company business situation
2006.08.24 Aug.24, 2006	conference room of the Company	Oral	Citi Bank Shanghai Stock Exchanges	Industry development and Company business situation
2006.09.05 Sep. 5,2006	conference room of the Company	Oral	Goldman Sachs	Industry development and Company business situation
2006.09.11 Sep. 11,2006	conference room of the Company	Oral	Morgan Stanley, Schroders Plc(Hong Kong)	Industry development and Company business situation
2006.09.18 Sep. 18,2006	conference room of the Company	Oral	Paris Baifule	Industry development and Company business situation
2006.09.20 Sep. 20,2006	conference room of the Company	Oral	Macquarie	Industry development and Company business situation
2006.09.21 Sep. 21,2006	conference room of the Company	Oral	JP Morgan Chase & Co	Industry development and Company business situation
2006.12.06 Dec.6, 2006	conference room of the Company	Oral	HillhouseCapitalManagement	Industry development and Company business situation
2006.12.11 Dec.11, 2006	conference room of the Company	Oral	Norway Bank	Industry development and Company business situation
2006.12.12 Dec.12, 2006	conference room of the Company	Oral	AIG Insurance Corp. of America, Martin C u r r i e Asset Management L i m i t e d GE, Danmaxi Group,Yale University Fund,DBS	business structure and joint venture of the Company
2006.12.19 Dec.19, 2006	conference room of the Company	Oral	Orient Securities Co. Ltd	Industry development and Company business situation and visit
2006.12.20 Dec.20, 2006	conference room of the Company	Oral	TigerVC	Industry development and Company business situation and visit
2006.12.28 Dec.28, 2006	conference room of the Company	Oral	Pingan Securities, Huaxia Fund,Baoying Fund Management Co. Ltd, Dacheng Fund Management Co. Ltd, SYWG BNP Paribas Asset Management Co., Ltd, GF Fund Management, Guolian Securities	Industry development and Company business situation

XI. CHONGQING CHANGAN AUTOMOBILE CO., LTD.CONSOLIDATED FINANCIAL STATEMENTS

1 Report of the auditors

2007/SH-056/BMC/TQC

Independent Auditor's Report

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

Report on the financial statements

We have audited the accompanying consolidated financial statements of Chongqing Changan Automobile Co., Ltd. (the "Company") and its subsidiaries (together, the "Group") which comprise the consolidated balance sheet as at 31 December 2006 and the consolidated income statement, consolidated statement of changes in equity and consolidated cash flow statement for the year then ended and a summary of significant accounting policies and other explanatory notes.

Management's responsibility for the financial statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditor' s responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the accompanying consolidated financial statements give a true and fair view of the financial position of the Group as at 31 December 2006, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

PricewaterhouseCoopers Zhong Tian CPAs Limited Company

Shanghai, the People's Republic of China

10 April 2007

CHONGQING CHANGAN AUTOMOBILE CO., LTD.
CONSOLIDATED BALANCE SHEET
AS AT 31 DECEMBER 2006

All amounts in Renminbi ("RMB")

	Note	As at 31 December 2006	As at 31 December 2005
		RMB'000	RMB'000
ASSETS			
Non-current assets			
Property, plant and equipment	5	8,641,726	6,047,177
Lease prepayments	6	529,883	505,766
Intangible assets	7	135,798	104,677
Investments in associates	8	1,427,415	1,350,472
Available-for-sale financial assets	9	114,989	99,589
Other non-current assets	10	7,323	141,268
Deferred income tax assets	11	235,380	201,205
		11,092,514	8,450,154
Current assets			
Inventories	12	3,825,368	3,883,668
Trade and other receivables	13	3,784,704	2,673,338
Restricted cash	14	203,545	86,650
Cash and cash equivalents	15	4,190,899	3,699,577
		12,004,516	10,343,233
Total assets		23,097,030	18,793,387

The notes are an integral part of these consolidated financial statements.

CHONGQING CHANGAN AUTOMOBILE CO., LTD.
CONSOLIDATED BALANCE SHEET (CONTINUED)
AS AT 31 DECEMBER 2006

All amounts in Renminbi ("RMB")

	Note	As at 31 December 2006 RMB'000	As at 31 December 2005 RMB'000
EQUITY			
Capital and reserves attributable to equity holders of the Company			
Ordinary shares	16	1,620,849	1,620,849
Share premium	17	1,743,168	1,743,168
Other reserves	18	1,731,460	1,554,130
Retained earnings		1,683,359	1,521,990
		6,778,836	6,440,137
Minority interests		1,631,754	1,657,997
Total equity		8,410,590	8,098,134
LIABILITIES			
Non-current liabilities			
Borrowings	19	1,508,955	964,039
Deferred income tax liabilities	11	82,820	71,853
Retirement benefit obligations	20	29,891	22,690
Deferred income	21	356,342	361,774
Other non-current liabilities	22	17,343	17,343
		1,995,351	1,437,699
Current liabilities			
Trade and other payables	23	10,101,706	7,840,699
Current income tax liabilities		122,947	(9,593)
Borrowings	19	1,991,511	1,078,937
Derivative financial instruments	24	16,874	-
Provisions for other liabilities and charges	25	458,051	347,511
		12,691,089	9,257,554
Total liabilities		14,686,440	10,695,253
Total equity and liabilities		23,097,030	18,793,387

The notes are an integral part of these consolidated financial statements.

CHONGQING CHANGAN AUTOMOBILE CO., LTD.
CONSOLIDATED INCOME STATEMENT
FOR THE YEAR ENDED 31 DECEMBER 2006

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

		Year ended 31 December	
	Note	**2006**	**2005**
		RMB'000	**RMB'000**
Sales	26	25,675,344	19,168,550
Sales tax and surcharge		(950,213)	(694,395)
Net sales		24,725,131	18,474,155
Cost of goods sold		(20,412,481)	(15,439,552)
Gross profit		4,312,650	3,034,603
Selling and marketing costs		(2,227,744)	(1,621,357)
Administrative expenses		(1,727,071)	(1,412,428)
Other income	27	128,381	152,894
Other gain/loss, net	28	(60,244)	21,356
Operating profit		425,972	175,068
Finance income	31	57,563	62,721
Finance cost	31	(169,141)	(86,042)
Finance cost, net	31	(111,578)	(23,321)
Share of profit of associates	8	254,177	89,166
Profit before income tax		568,571	240,913
Income tax expense	32	(156,406)	31,013
Profit for the year		412,165	271,926
Attributable to:			
Equity holders of the Company		434,429	199,309
Minority interests		(22,264)	72,617
		412,165	271,926
Earnings per share for profit attributable to the equity holders of the Company during the year (RMB per share)			
– Basic and diluted	33	0.27	0.12

The notes are an integral part of these consolidated financial statements.

CHONGQING CHANGAN AUTOMOBILE CO., LTD.
CONSOLIDATED SATATEMENT OF CHANGES IN EQUTIY
FOR THE YEAR ENDED 31 DECEMBER 2006

All amounts in Renminbi ("RMB")

		Attributable to equity holders of the Company					
	Note	**Share Capital RMB'000**	**Share Premium RMB'000**	**Other Reserves RMB'000**	**Retained Earnings RMB'000**	**Minority Interests RMB'000**	**Total Equity RMB'000**
Balance at 1 January 2005		1,620,849	1,743,168	1,451,496	1,943,987	1,144,218	7,903,718
Cash dividend relating to 2004	34	-	-	-	(518,672)	-	(518,672)
Net profit for the year		-	-	-	199,309	72,617	271,926
Profit appropriation	18	-	-	102,634	(102,634)	-	-
Dividends paid to minority shareholders		-	-	-	-	(6,000)	(6,000)
Contribution from minority shareholders		-	-	-	-	450,300	450,300
Acquisition of additional interests from minority shareholders		-	-	-	-	(4,900)	(4,900)
Additional share of net assets by minority shareholders due to additional injection by the Company		-	-	-	-	1,762	1,762
Balance at 31 December 2005		1,620,849	1,743,168	1,554,130	1,521,990	1,657,997	8,098,134
Cash dividend relating to 2005	34	-	-	-	(97,251)	-	(97,251)
Net profit for the year		-	-	-	434,429	(22,264)	412,165
Profit appropriation	18	-	-	175,809	(175,809)	-	-
Dividends paid to minority shareholders		-	-	-	-	(4,127)	(4,127)
Acquisition of additional interests from minority shareholders		-	-	-	-	(1,200)	(1,200)
Additional share of net assets by minority shareholders due to additional injection by the Company		-	-	-	-	(173)	(173)
Others		-	-	1,521	-	1,521	3,042
Balance at 31 December 2006		1,620,849	1,743,168	1,731,460	1,683,359	1,631,754	8,410,590

The notes are an integral part of these consolidated financial statements.

CHONGQING CHANGAN AUTOMOBILE CO., LTD.
CONSOLIDATED CASH FLOW STATEMENT
FOR THE YEAR ENDED 31 DECEMBER 2006

All amounts in Renminbi ("RMB")

	Note	Year ended 31 December 2006	2005
		RMB'000	RMB'000
Cash flows from operating activities			
Cash generated from operations	36	2,206,213	1,412,264
Income tax paid		(92,362)	(50,372)
Net cash generated from operating activities		2,113,851	1,361,892
Cash flows from investing activities			
Proceeds from disposal of property, plant and equipment	36	48,686	10,805
Proceeds from disposal of lease prepayments		-	432
Decrease in held-to-maturity investments		-	172,432
Proceeds from disposal of subsidiaries		6,025	-
Proceeds from disposal of available-for-sale financial assets		200	-
Dividends received from associates		180,276	-
Investment income from available-for-sales financial assets		13	-
Investment income from financial assets		-	4,542
Government grants		-	9,039
Interest received		56,484	65,127
Sub-total of cash inflow		291,684	262,377
Purchase of property, plant and equipment		(2,868,923)	(1,677,950)
Increase of lease prepayments		(26,232)	(65,400)
Purchase of intangible assets		(28,475)	(12,547)
Purchase of long-term deferred assets		(12,977)	(2,619)
Purchase of available-for-sale financial assets		(2,500)	(80,000)
Purchase of subsidiary's shares from minority shareholders		(23,372)	(2,500)
Acquisition of subsidiaries, net of cash acquired	35	160,837	-
Considerations paid for share reform of associate	29	(142,568)	-
Sub-total of cash outflow		(2,944,210)	(1,841,016)
Net cash used in investing activities		(2,652,526)	(1,578,639)

The notes are an integral part of these consolidated financial statements.

CHONGQING CHANGAN AUTOMOBILE CO., LTD.
CONSOLIDATED CASH FLOW STATEMENT (CONTINUED)
FOR THE YEAR ENDED 31 DECEMBER 2006

All amounts in Renminbi ("RMB")

	Note	Year ended 31 December	
		2006	**2005**
		RMB'000	**RMB'000**
Cash flows from financing activities			
Contribution from minority shareholders		-	300
Proceeds received from issuance of bonds		498,040	-
Proceeds from borrowings		2,542,650	1,772,766
Decrease in restricted cash		-	71,302
Sub-total of cash inflow		3,040,690	1,844,368
Repayment of borrowings		(1,647,220)	(1,474,054)
Interest paid		(145,200)	(74,353)
Dividends paid to shareholders		(97,251)	(518,672)
Dividends paid to minority shareholders of subsidiaries		(4,127)	(6,000)
Increase in restricted cash		(116,895)	-
Sub-total of cash outflow		(2,010,693)	(2,073,079)
Net cash generated from/(used in) financing activities		1,029,997	(228,711)
Net increase/(decrease) in cash and cash equivalents		491,322	(445,458)
Cash and cash equivalents at beginning of year		3,699,577	4,145,035
Cash and cash equivalents at end of year	15	4,190,899	3,699,577

The notes are an integral part of these consolidated financial statements.

1 General information

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

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

The address of the Company's registered office is No. 260 Jianxin East Road, Jiangbei District, Chongqing, the PRC. The Company has its primary listing on the Shenzhen Stock Exchange (for both "A" and "B" shares).

These consolidated financial statements have been approved for issue by the Board of Directors on 10 April 2007.

2 Summary of significant accounting policies

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

A Basis of preparation

The consolidated financial statements of the Group have been prepared in accordance with International Financial Reporting Standards ("IFRS"). The consolidated financial statements have been prepared under the historical cost convention except as disclosed in the accounting policies below.

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

(a) Amendments to published standards effective in 2006

IAS 19 (Amendment), Employee Benefits, is mandatory for the Group's accounting periods beginning on or after 1 January 2006. It introduces the option of an alternative recognition approach for actuarial gains and losses. It may impose additional recognition requirements for multi-employer plans where insufficient information is available to apply defined benefit accounting. It also adds new disclosure requirements. As the Group does not intend to change the accounting policy adopted for recognition of actuarial gains and losses and does not participate in any multi-employer plans, adoption of this amendment only impacts the format and extent of disclosures presented in the accounts.

(b) Standards, amendments and interpretations effective in 2006 but not relevant to the Group

The following standards, amendments and interpretations are mandatory for accounting periods beginning on or after 1 January 2006 but are not relevant to the Group's operations:

- IAS 21 (Amendment), Net Investment in a Foreign Operation;
- IAS 39 (Amendment), Cash Flow Hedge Accounting of Forecast Intragroup Transactions;
- IAS 39 (Amendment), The Fair Value Option;
- IAS 39 and IFRS 4 (Amendment), Financial Guarantee Contracts;

- IFRS 1 (Amendment), First-time Adoption of International Financial Reporting Standards and IFRS 6 (Amendment), Exploration for and Evaluation of Mineral Resources;
- IFRS 6, Exploration for and Evaluation of Mineral Resources;
- IFRIC 4, Determining whether an Arrangement contains a Lease; and
- IFRIC 5, Rights to Interests arising from Decommissioning, Restoration and Environmental Rehabilitation Funds; and
- IFRIC 6, Liabilities arising from Participating in a Specific Market – Waste Electrical and Electronic Equipment.

(c) Interpretations to existing standards that are not yet effective and have not been early adopted by the Group:

- IFRIC 10, Interim Financial Reporting and Impairment (effective for annual periods beginning on or after 1 November 2006). IFRIC 10 prohibits the impairment losses recognised in an interim period on goodwill, investments in equity instruments and investments in financial assets carried at cost to be reversed at a subsequent balance sheet date. The Group will apply IFRIC 10 from 1 January 2007, but it is not expected to have any impact on the Group's accounts.

- IFRS 7, Financial Instruments: Disclosures, (effective fo annual periods beginning on or after 1 January 2007). IFRS 7 introduces new disclosures relating to financial instruments. The Group will apply IFRIC 10 from 1 January 2007, but it is not expected to have any impact on the Group's accounts.

(d) Interpretations to existing standards that are not yet effective and not relevant to the Group

The following interpretations to existing standards have been published that are mandatory for the Group's accounting periods beginning on or after 1 May 2006 or later periods that the Group has not early adopted:

- IFRIC 7, Applying the Restatement Approach under IAS 29, Financial Reporting in Hyperinflationary Economies (effective from 1 March 2006). IFRIC 7 provides guidance on how to apply requirements of IAS 29 in a reporting period in which an entity identifies the existence of hyperinflation in the economy of its functional currency, when the economy was not hyperinflationary in the prior period. As none of the group entities have a currency of a hyperinflationary economy as its functional currency, IFRIC 7 is not relevant to the Group's operations;

- IFRIC 8, Scope of IFRS 2 (effective for annual periods beginning on or after 1 May 2006). IFRIC 8 requires consideration of transactions involving the issuance of equity instruments – where the identifiable consideration received is less than the fair value of the equity instruments issued – to establish whether or not they fall within the scope of IFRS 2, IFRIC 8 is not relevant to the Group's operations; and

- IFRIC 9, Reassessment of embedded derivatives (effective for annual periods beginning on or after 1 June 2006). IFRIC 9 requires an entity to assess whether an embedded derivative is required to be separated from the host contract and accounted for as a derivative when the entity first becomes a party to the contract. Subsequent reassessment is prohibited unless there is a change in the terms of the contract that significantly modifies the cash flows that otherwise would be required under the contract, in which case reassessment is required. As none of the group entities have changed the terms of their contracts, IFRIC 9 is not relevant to the Group's operations.

B Consolidation

(1) Subsidiaries

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

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

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

(2) Transactions with minority interests

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

(3) Jointly controlled entities

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

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

(4) Associates

Associates are all entities over which the Group has significant influence but not control, generally accompanying a shareholding of between 20% and 50% of the voting rights. Investments in associates are accounted for using the equity method of accounting and are initially recognised at cost. The Group's investment in associates includes goodwill (net of any accumulated impairment loss) identified on acquisition (see Note 2 F).

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

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

Dilution gains and losses in associates are recognised in the income statement.

C Foreign currency translation

(1) nctional and presentation currency

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

(2) ınsactions and balances

reign currency transactions are translated into the functional currency using the exchange rates prevailing on the first day of the month in which the transactions take place. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement.

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

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

D Property, plant and equipment

Property, plant and equipment are stated at historical cost less accumulated depreciation and any impairment losses. Historical cost includes expenditure that is directly attributable to the acquisition or construction of the items.

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. The carrying amount of the replaced part is derecognised. All other repairs and maintenance are charged to the income statement during the financial period in which they are incurred.

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

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

Construction-in-progress represents buildings, plant and machinery under construction or pending installation and is stated at cost. Cost includes the costs of construction of buildings and costs of plant and machinery. No provision of depreciation is made on construction-in-progress 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.

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

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount (Note 2 G).

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

E Lease prepayments

Lease prepayments represent upfront prepayments made for the land use rights and are expensed in the income statement on a straight line basis over the period of the lease or when there is impairment, the impairment is expensed in the income statement.

F Intangible assets

(1) Goodwill

Goodwill represents the excess of the cost of an acquisition over the fair value of the Group's share of the net identifiable assets of the acquired subsidiary/jointly controlled entity/associate at the date of acquisition. Goodwill on acquisitions of subsidiaries and jointly controlled entity is included in 'intangible assets'. Goodwill on acquisitions of associates is included in 'investments in associates'. Separately recognised goodwill is tested annually for impairment and carried at cost less accumulated impairment losses. Impairment losses on goodwill are not reversed. Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold.

Goodwill is allocated to cash-generating units for the purpose of impairment testing. The allocation is made to those cash-generating units or groups of cash-generating units that are expected to benefit from the business combination in which the goodwill arose (Note 2 G).

(2) Proprietary technology

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

(3) Trademarks

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

(4) Computer software

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

G Impairment of non-financial assets

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

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

Financial assets at fair value through profit or loss are financial assets held for trading. A financial asset is classified in this category if acquired principally for the purpose of selling in the short term. Derivatives are classified as held for trading unless they are designated as hedges. Assets in this category are classified as current assets.

(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 losses are initially recognised at fair value and transaction costs are expensed in the income statement. Financial assets 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, are presented in the income statement in the period in which they arise. Dividend income from financial assets at fair value through profit or loss is recognised in the income statement as part of other income when the Group's right to receive payments is established.

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

When securities classified as available-for-sale are sold or impaired, the accumulated fair value adjustments recognised in equity are included in the income statement as 'gains and losses from investment securities'.

Interest on available-for-sale securities calculated using the effective interest method is recognised in the income statement. Dividends on available-for-sale equity instruments are recognised in the income statement when the Group's right to receive payments is established.

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

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

I Derivative financial instruments and hedging activities

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

J Deferred assets

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

K Inventories

Inventories are stated at the lower of cost or net realisable value. Cost is determined using the weighted average method. The cost of finished goods and work in progress comprises raw materials, direct labour, other direct costs and related production overheads (based on normal operating capacity). It excludes borrowing costs. Net realisable value is the estimated selling price in the ordinary course of business, less applicable variable costs of completion and selling expenses.

L Trade receivables

Trade receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment. A provision for impairment of trade receivables is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of receivables. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation, and default or delinquency in payments are considered indicators that the trade receivable is impaired. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the effective interest rate. The carrying amount of the assets is reduced through the use of an allowance account, and the amount of the loss is recognised in the income statement. When a trade receivable is uncollectible, it is written off against the allowance account for trade receivables. Subsequent recoveries of amounts previously written off are credited in the income statement.

M Cash and cash equivalents

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

Share capital

N

Share capital consists of “A” and “B” ordinary shares.

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

Where any group company purchases the Company's equity share capital (treasury shares), the consideration paid, including any directly attributable incremental costs (net of income taxes), is deducted from equity attributable to the Company's equity holders until the shares are cancelled or reissued. Where such shares are subsequently reissued, any consideration received (net of any directly attributable incremental transaction costs and the related income tax effects) is included in equity attributable to the Company's equity holders.

O Borrowings

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

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

P Deferred income tax

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

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

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

Q Employee benefits

(1) Pension obligations

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

In addition, the Group provides supplementary pension subsidies to certain qualified employees. Such supplementary pension subsidies are considered as under defined benefit plans. The liability recognised in the balance sheet in respect of these defined benefit plans is the present value of the defined obligation at the balance sheet date less the fair value of plan assets, together with adjustments for unrecognised actuarial gains or losses and past service cost. The defined benefit obligation is calculated annually by independent actuaries using the projected unit credit method. The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows according to the terms of the related pension liability.

(2) Housing fund and other benefits

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

In addition, the domestically incorporated companies within the Group make a provision at 14% of the total salary of its employee for general welfare.

(3) 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 costs, are recognised when the Group has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation; and the amount has been reliably estimated. Provisions are not recognised for future operating losses.

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

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

S Revenue recognition

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

The Group recognises revenue when the amount of revenue can be reliably measured, it is probable that future economic benefits will flow to the entity and specific criteria have been met for each of the Group's activities as described below. The amount of revenue is not considered to be reliably measurable until all contingencies relating to the sale have been resolved. The Group bases its estimates on historical results, taking into consideration the type of customer, the type of transaction and the specifics of each arrangement.

(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 accrual 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) As a 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) As a lessor

Assets leased out under operating leases are included in property, plant and equipment in the balance sheet. They are depreciated over their expected useful lives on a basis consistent with similar owned property, plant and equipment. Rental income (net of any incentives given to lessees) is recognised on a straight-line basis over the lease term.

U Dividend distribution

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

II.

V III. 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 if its 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. Capitalised development costs are recorded as intangible assets and amortised from the point at which the asset is ready for use on a straight-line over its useful life. 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 are mainly derived from the manufacture and domestic sale of automobiles and the principal assets employed by the Group are located in the PRC. Accordingly, no analysis by business and geographical segments has been provided for the year.

3 Financial risk management

3.1 Financial risk factors

The Group's activities expose it to a variety of financial risks: market risk (including currency risk, fair value interest rate risk and cash flow interest rate risk and price risk), credit risk, liquidity 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.

(a) Market risk

(1) Foreign exchange risk

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

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

(2) Commodity price risk

Commodity price risk is the possibility of higher of lower costs due to changes in prices of commodities, such as ferrous metals (e.g. steels and iron castings), energy (e.g. natural gas and electricity), and oil (e.g. gasoline, oil paints), which we use in the productions of motor vehicles. Steel and oil are our two largest commodity exposures and are among the most difficult to hedge.

Our purchasing department negotiates contracts to ensure continuous supply of raw materials. In some cases, these contracts stipulate minimum purchase amounts and specific prices, and as such, play a role in managing price risk.

(3) Cash flow and fair value interest rate risk

As the Group has no significant interest-bearing assets, the Group's income and operating cash flows are substantially independent of changes in market interest rates.

The Group's interest rate risk arises from long-term borrowings. Borrowings issued at variable rates expose the Group to cash flow interest rate risk. Borrowings issued at fixed rates expose the Group to fair value interest rate risk. The interest rates and terms of the repayment of bank borrowings of the Group are disclosed in Note 19 to the financial statements.

(b) 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.

(c) 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.

3.2 Fair values estimation

The carrying value less impairment provision of trade receivables and payables are assumed to approximate their fair values due to the short-term nature of trade receivables. 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.

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.

4.1 Critical accounting estimates and assumptions

The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, rarely 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 outlined below.

(a) Estimated impairment of goodwill

The Group tests annually whether goodwill has suffered any impairment, in accordance with the accounting policy stated in Note 2 G. The recoverable amounts of cash-generating units have been determined based on value-in-use calculations. These calculations require the use of estimates (Note 7).

(b) Income taxes

The Group is subject to various taxes in the PRC. Significant judgement is required in determining the provision for income taxes. There are many transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business. The Group recognises liabilities for anticipated tax audit issues based on estimates of whether additional taxes will be due. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the income tax and deferred tax provisions in the period in which such determination is made.

(c) 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.

(d) 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 judgement 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.

(e) Inventories

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

(f) 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 labour costs. Any increase or decrease in the provision would affect profit or loss in future years.

4.2 Critical judgements in applying the entity's accounting policies

(a) Impairment of available-for-sales financial assets

The Group follows the guidance of IAS 39 to determine when an available-for-sale financial asset is impaired. This determination requires significant judgement. In making this judgement, the Group evaluates, among other factors, the duration and extent to which the fair value of an investment is less than its cost; and the financial health of and near-term business outlook for the investee, including factors such as industry and sector performance, changes in technology and operational and financing cash flow.

5 Property, plant and equipment

	Buildings & Plants RMB'000	Equipment & Machinery RMB'000	Motor Vehicles RMB'000	Construction in progress RMB'000	Others RMB'000	Total RMB'000
At 1 January 2005						
Cost	1,249,362	4,298,128	78,078	819,913	281,773	6,727,254
Accumulated depreciation	(186,432)	(1,680,036)	(24,427)	-	(74,256)	(1,965,151)
Impairment charge	-	(2,931)	-	-	-	(2,931)
Net book amount	1,062,930	2,615,161	53,651	819,913	207,517	4,759,172
Year ended 31 December 2005						
Opening net book amount	1,062,930	2,615,161	53,651	819,913	207,517	4,759,172
Additions	10,594	270,434	8,356	1,549,879	20,422	1,859,685
Transfers	306,234	924,953	16,042	(1,346,329)	99,100	-
Disposals (Note 36)	(17,713)	(34,561)	(1,707)	-	(1,223)	(55,204)
Other deduction	-	-	-	(2,988)	-	(2,988)
Depreciation charge (Note 29)	(49,215)	(396,932)	(11,683)	-	(57,125)	(514,955)
Reversal of impairment charge (Note 29)	-	1,467	-	-	-	1,467
Closing net book amount	1,312,830	3,380,522	64,659	1,020,475	268,691	6,047,177
At 31 December 2005						
Cost	1,536,769	5,447,425	98,044	1,020,475	408,322	8,511,035
Accumulated depreciation	(223,939)	(2,065,439)	(33,385)	-	(139,631)	(2,462,394)
Impairment charge	-	(1,464)	-	-	-	(1,464)
Net book amount	1,312,830	3,380,522	64,659	1,020,475	268,691	6,047,177

	Buildings & Plants RMB'000	Equipment & Machinery RMB'000	Motor Vehicles RMB'000	Construction in progress RMB'000	Others RMB'000	Total RMB'000
Year ended 31 December 2006						
Opening net book amount	1,312,830	3,380,522	64,659	1,020,475	268,691	6,047,177
Additions	2,322	372,958	3,759	2,715,101	55,437	3,149,577
Acquisition of a subsidiary (Note 35)	53,994	111,335	4,644	-	13,463	183,436
Transfers	163,855	1,534,443	12,799	(1,702,194)	(8,903)	-
Disposals (Note 36)	(376)	(23,276)	(10,218)	-	(381)	(34,251)
Other deduction	-	-	-	(5,399)	-	(5,399)
Depreciation charge (Note 29)	(65,589)	(549,309)	(14,059)	-	(51,255)	(680,212)

Impairment charge (Note 29)	-	(15,769)	-	(2,833)	-	(18,602)
Closing net book amount	1,467,036	4,810,904	61,584	2,025,150	277,052	8,641,726
At 31 December 2006						
Cost	1,757,907	7,372,091	106,690	2,027,983	430,384	11,695,055
Accumulated depreciation	(290,871)	(2,544,059)	(45,106)	-	(153,330)	(3,033,366)
Impairment charge	-	(17,128)	-	(2,833)	(2)	(19,963)
Net book amount	1,467,036	4,810,904	61,584	2,025,150	277,052	8,641,726

During 2006, interest expenses of approximately RMB14,370,000 (2005: RMB12,414,000) arising from borrowings specifically for the construction of property, plant and equipment are capitalised in the cost of construction in progress at the rate of 5.75% (2005: 5.75%) per annum.

All of the Group's properties are located in the PRC. The Group is in the process of obtaining building ownership certificates for properties with an aggregate net book value of approximately RMB489,470,000 (2005: RMB254,463,000).

As at 31 December 2006, buildings and equipments with an aggregate net book value of approximately RMB214,118,000 (2005: RMB29,549,000) have been pledged as securities for loans (Note 19).

Depreciation expense of approximately RMB597,362,000 (2005: RMB456,647,000) has been charged in cost of goods sold, RMB8,452,000 (2005: RMB5,314,000) in selling and marketing costs and RMB74,398,000 (2005: RMB52,994,000) in administrative expenses.

Lease rental amounting to RMB86,402,000 (2005: RMB79,338,000) relating to the lease of properties and land use right is included in the income statement (Note 29).

6 Lease prepayments

Lease prepayments represent the Group's interests in land use rights which are held on leases of between 30 to 50 years. The movement is as follows:

	2006 RMB'000	**2005 RMB'000**
Cost		
At beginning of year	561,998	497,029
Additions	26,232	65,401
Acquisition	23,143	-
Disposal	-	(432)
Other deduction	(11,806)	-
At end of year	599,567	561,998
Accumulated amortisation and impairment		
At beginning of year	(56,232)	(45,473)
Amortisation charge (Note 29)	(13,452)	(10,759)
At end of year	(69,684)	(56,232)
Net book amount	529,883	505,766

As at 31 December 2006, land use rights with a net book value of approximately RMB24,403,000 (2005: RMB4,433,000) has been pledged as securities for loans (Note 19).

As at 31 December 2006, the Group is in the process of obtaining land use right certificates for certain land with an aggregate net book value of approximately RMB146,756,000 (2005: RMB126,973,000).

7 Intangible assets

	Goodwill RMB'000	Trademark RMB'000	Proprietary Technology RMB'000	Software RMB'000	Total RMB'000
At 1 January 2005					
Cost	130,421	33,502	38,715	8,114	210,752
Accumulated amortisation	-	(7,967)	(23,944)	(2,204)	(34,115)
Net book amount	130,421	25,535	14,771	5,910	176,637
Year ended 31 December 2005					
Opening net book amount	130,421	25,535	14,771	5,910	176,637
Additions	1,762	-	7,430	5,117	14,309
Amortisation charge (Note 29)	-	(2,451)	(5,749)	(2,627)	(10,827)
Impairment charge (Note 29)	(75,442)	-	-	-	(75,442)
Closing net book amount	56,741	23,084	16,452	8,400	104,677
At 31 December 2005					
Cost	132,183	33,502	46,145	13,231	225,061
Accumulated amortisation	-	(10,418)	(29,693)	(4,831)	(44,942)
Impairment charge	(75,442)	-	-	-	(75,442)
Net book amount	56,741	23,084	16,452	8,400	104,677
Year ended 31 December 2006					
Opening net book amount	56,741	23,084	16,452	8,400	104,677
Additions	-	-	42,200	1,688	43,888
Amortisation charge (Note 29)	-	(2,452)	(7,067)	(3,248)	(12,767)
Closing net book amount	56,741	20,632	51,585	6,840	135,798
At 31 December 2006					
Cost	132,183	33,502	88,345	14,919	268,949
Accumulated amortisation	-	(12,870)	(36,760)	(8,079)	(57,709)
Impairment charge	(75,442)	-	-	-	(75,442)
Net book amount	56,741	20,632	51,585	6,840	135,798

All amortisation expenses of RMB12,767,000 (2005: RMB10,827,000) have been charged in administrative expenses (Note 29).

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

The recoverable amount of a CGU is determined based on value-in-use calculations. These calculations use pre-tax cash flow projections based on financial budgets approved by management covering a five-year period and an average discount rate ranging from 14.19% to 18.19%. Cash flows beyond the five-year period are extrapolated using the estimated growth rates and the growth rate does not exceed the long-term average growth rate for the automobile business in which the CGU operates.

Management determined budgeted gross margin based on past performance and its expectations of market development. The weighted average growth rates used are consistent with the forecasts included in industry reports. The discount rates used are pre-tax and reflect specific risks relating to the relevant segments.

The management of the Group determines that there is no impairment for goodwill in relation to Hebei Changan and Changan Ford Mazda Automobile in 2006.

8 Investments in associates

	2006 RMB'000	2005 RMB'000
At beginning of year	1,350,472	4,500
Addition	3,042	1,256,806
Share of profit (Note 36)	254,177	89,166
Dividends received	(180,276)	-
At end of year	1,427,415	1,350,472

The Group's associates include Chongqing Helpgo Information Technology Co., Ltd. (hereafter referred to as "Changan Helpgo", formerly known as Chongqing Changan Information Technology Co., Ltd), and Jiangling Motors Corporation, Ltd. (hereafter referred to as "Jiangling Motors" and who has primary listing in the Shenzhen Stock Exchange). Jiangling Motors completed its share reform in February 2006 and the Group paid cash of RMB142,568,000 to the tradable A-share shareholders of Jiangling Motors (Note 29).

As at 31 December 2006, investments in associates include goodwill of RMB134,657,000 (original amount) arising from acquisition of Jiangling Motors (2005: RMB134,657,000). The recoverable amount of the investment in associate is determined based on the fair market value of the shares of Jiangling Motor held by the Group. During the year ended 31 December 2006, the management of the Group determines that there is no impairment for the goodwill arising from acquisition of Jiangling Motors.

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

Name	Country of incorporation	Assets RMB'000	Liabilities RMB'000	Revenues RMB'000	Profit RMB'000	%interest held
2005						
Changan Information Technology	The PRC	11,274	6,164	17,793	610	21.43%
Jiangling Motors	The PRC	2,006,029	747,154	2,576,945	88,556	41.03%
		2,017,303	753,318	2,594,738	89,166	
2006						
Changqing Helpgo	The PRC	13,327	7,470	16,515	747	21.43%

Jiangling Motors	The PRC	2,245,606	958,705	3,023,317	253,430	41.03%
		2,258,933	966,175	3,039,832	254,177	

9 Available-for-sale financial assets

	2006 RMB'000	2005 RMB'000
Cost		
Beginning of the year	139,609	61,800
Additions	2,500	81,809
Deduction	-	(4,000)
End of the year (a)	142,109	139,609
Impairment charge		
Beginning of the year	(40,020)	(40,020)
Reversal of impairment charge (b)	12,900	-
End of the year	(27,120)	(40,020)
Net book amount	114,989	99,589

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

	2006 RMB'000	2005 RMB'000
South-western Securities Co., Ltd.	50,000	50,000
Chongqing International Golf Club Co., Ltd.	4,900	4,900
Chongqing Changan Jinling Vehicles Parts Co., Ltd.	2,900	2,900
China South Industry Group Finance Co., Ltd.	80,000	80,000
Nanchang Jiangling Group Skyman Auto-body Parts Co., Ltd.	2,500	-
Sichuan Glass Co., Ltd.	1,809	1,809
	142,109	139,609

(b) In 2006, South-western Securities Co., Ltd. (hereafter referred to as "South-western Securities") completed restructuring with additional capital injected and the financial position of South-western Securities is improving. As at 31 December 2006, the recoverable amount of the investment exceeds its carrying amount and an impairment provision of RMB12,900,000 is reversed in 2006 (Note 29).

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

The directors are of the opinion that the underlying value of the investments is not less than their carrying value as at 31 December 2006.

10

Other non-current assets

	2006	2005

	RMB'000	*RMB'000*
Long-term receivable	*-*	*136,290*
Long-term deferred assets (a)	*7,323*	*4,978*
	7,323	*141,268*

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

	RMB'000
At 1 January 2005	
Cost	17,525
Accumulated amortisation	(13,543)
Net book amount	3,982
Year ended 31 December 2005	
Opening net book amount	3,982
Additions	2,619
Amortisation charge (Note 29)	(1,591)
Other deduction	(32)
Closing net book amount	4,978
At 31 December 2005	
Cost	15,610
Accumulated amortisation	(10,632)
Net book amount	4,978
Year ended 31 December 2006	
Opening net book amount	4,978
Additions	5,977
Amortisation charge (Note 29)	(3,632)
Closing net book amount	7,323
At 31 December 2006	
Cost	21,587
Accumulated amortisation	(14,264)
Net book amount	7,323

11 Deferred income tax

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

(1) Deferred income tax assets

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

	2006	**2005**
	RMB'000	**RMB'000**
At beginning of year	201,205	97,410

Income statement credit	34,175	103,795
At end of year	235,380	201,205

Deferred income tax assets	**Provisions and accruals RMB'000**	**Impairment provision RMB'000**	**Others RMB'000**	**Total RMB'000**
At 1 January 2005	70,723	23,090	3,597	97,410
Income statement credit	98,679	4,825	291	103,795
At 31 December 2005	169,402	27,915	3,888	201,205
At 1 January 2006	169,402	27,915	3,888	201,205
Income statement credit / (charge)	38,140	(1,782)	(2,183)	34,175
At 31 December 2006	207,542	26,133	1,705	235,380

The amounts shown in the balance sheet include the following:

	2006 RMB'000	**2005 RMB'000**
Deferred income tax assets:		
– Deferred income tax assets to be recovered within 12 months	89,792	189,832
– Deferred income tax assets to be recovered after more than 12 months	145,588	11,373
	235,380	201,205

(2) Deferred income tax liabilities

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

	2006 RMB'000	**2005 RMB'000**
At beginning of year	71,853	-
Income statement charge	10,967	15,633
Attributable to acquisition of an associate	-	56,220
At end of year	82,820	71,853

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

	2006 RMB'000	**2005 RMB'000**
Deferred income tax liabilities:		
– Deferred income tax liabilities to be recovered within 12 months	53,668	38,176
– Deferred income tax liabilities to be recovered after more than 12 months	29,152	33,677
	82,820	71,853

12 Inventories

	2006 RMB'000	2005 RMB'000
Raw materials (at net realisable value)	1,305,373	1,172,633
Work in progress (at cost)	139,602	127,734
Finished goods (at net realisable value)	2,340,354	2,546,940
Consumables (at cost)	40,039	36,361
	3,825,368	3,883,668

The cost of inventories recognised as expense and included in "cost of goods sold" amounted to approximately RMB20,874,065,000 (2005: RMB15,978,263,000).

The Group has reversed approximately RMB3,153,000 impairment provision for inventory (2005: provision of RMB26,515,000) when the related inventories were sold or used. The amount reversed/provided has been included in "cost of goods sold" in the income statement (Note 29).

As at 31 December 2006, finished goods (motor vehicles) with an aggregate carrying value of approximately RMB72,648,000 (2005: RMB39,319,000) have been pledged as securities for the Group's short-term bank loans (Note 19).

Changan Ford Mazda Automobile, Ford Automotive Finance Corporation, Ltd. ("FAFC"), a subsidiary of Ford, and dealers have entered into "three party consignment agreement" in which Changan Ford Mazda Automobile pledged its finished goods (vehicles) to FAFC, and dealers obtain financing credit from FAFC.

As at 31 December 2006, finished goods (vehicles) with an aggregate net book value of approximately RMB497,034,000 (2005: RMB267,039,000) have been pledged under this arrangement. The interests of these financing activities are borne by the dealers.

13 Trade and other receivables

	2006 RMB'000	2005 RMB'000
Trade receivables	931,483	706,620
Less : provision for impairment of trade receivables	(96,936)	(110,866)
Trade receivables – net	834,547	595,754
Notes receivables	2,307,008	1,414,318
Prepayments	460,512	281,630
Other receivables	198,385	384,365
Less : provision for impairment of other receivables	(15,748)	(2,729)
	3,784,704	2,673,338

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

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

The Group has reversed a provision of RMB541,000 for the impairment of receivables during the year ended 31 December 2006 (2005: provision of RMB8,902,000). The provision for/reversal of the impairment of receivables has been included in administrative expenses (Note 29).

Receivables and prepayment to related parties are disclosed in Note 37.

14 Restricted Cash

As at 31 December 2006, RMB 203,545,000 of cash is pledged for obtaining bank borrowings and issuing bank acceptance notes and bank guarantees (2005: RMB86,650,000).

15 Cash and cash equivalents

	2006 RMB'000	2005 RMB'000
Cash at bank and in hand (a)	4,041,534	3,699,577
Marketable securities (b)	149,365	-
	4,190,899	3,699,577

(a) As at 31 December 2006, the Group has deposits of approximately RMB170,238,000 (2005: RMB5,022,000) in North Industry Group Finance Co., Ltd. The interest rates range from 0.72% to 1.44% per annum (2005: 0.72% to 1.44% per annum). North Industry Group Finance Co., Ltd., a non-bank financial institution, is an associate of the ultimate parent company of the Company.

As at 31 December 2006, the Group has deposits of approximately RMB161,519,000 (2005: Nil) in China South Industry Group Finance Co., Ltd. The interest rates range from 0.72% to 1.44% per annum (2005: Nil). China South Industry Group Finance Co., Ltd., a non-bank financial institution, is a subsidiary of the ultimate parent company of the Company (Note 37).

(b) As at 31 December 2006, marketable securities of RMB149,365,000 (2005: Nil) have original maturity less than three months.

16 Ordinary shares

	Non-tradable shares	Tradable shares			Total
		"A" shares		"B" shares	
		Restricted	Non-restricted		
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Year ended 31 December 2005					
Balance at 1 January and 31 December 2005	850,426	-	350,423	420,000	1,620,849
Year ended 31 December 2006					
Balance at 1 January 2006	850,426	-	350,423	420,000	1,620,849
Transfer	(850,426)	738,290	112,136	-	-
Balance at 31 December 2006	-	738,290	462,559	420,000	1,620,849

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

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

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

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

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

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

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

In December 2005, as part of the group reorganisation, China South Industries Group Corp. (hereafter referred to as “CSIG”, a state-owned enterprise incorporated in the PRC and is the ultimate parent company of the Company) injected its 52.47% interest in the Company as owned by CAC (a wholly-owned subsidiary of CSIG) into China South Industry Automobile Co. Ltd. (hereafter referred to as “CSIA”; a newly established joint stock limited company). Thereafter, CSIA became the immediate parent company of the Company.

In May 2006, the Company implemented the share reform scheme in accordance with relevant PRC regulations after which the Company’s shares would become tradable in the stock market with certain conditions. According to the share reform scheme of the Company, CSIA transferred 112,136,000 shares (amounting to RMB 112,136,000) in total to the tradable A-share shareholders on a basis of 3.2 shares for every 10 shares owned by the tradable A-share shareholders. After the share reform, CISA’s interests in the Company decreased from 52.47% to 45.55%. The remaining 54.45% of the Company’s shares are widely held.

17 Share premium

	RMB’000
Year ended 31 December 2005	
Balance at 1 January and 31 December 2005	1,743,168
Year ended 31 December 2006	
Balance at 1 January and 31 December 2006	1,743,168

18 Other reserves

	Statutory common reserve fund RMB’000	Statutory public welfare fund RMB’000	Reserve fund RMB’000	Enterprise expansion fund RMB’000	Others RMB’000	Total RMB’000
Year ended 31 December 2005						

Balance at 1 January 2005	454,303	453,533	407,490	136,170	-	1,451,496
Addition	26,902	23,712	40,800	11,220	-	102,634
Balance at 31 December 2005	481,205	477,245	448,290	147,390	-	1,554,130
Year ended 31 December 2006						
Balance at 1 January 2006	481,205	477,245	448,290	147,390	-	1,554,130
Addition	60,243	-	87,363	28,203	1,521	177,330
Transfer	477,245	(477,245)	-	-	-	-
Balance at 31 December 2006	1,018,693	-	535,653	175,593	1,521	1,731,460

Statutory common reserve fund

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

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

Statutory public welfare fund

According to the revised Company Law effective on 1 January 2006 and circular Caiqi [2006] No.67 issued by the Ministry of Finance on 15 March 2006, no appropriation of statutory public welfare fund is required as to the domestically incorporated companies in 2006 and the balance of the statutory public welfare fund as at 31 December 2005 has been transferred to statutory common reserve fund according to relevant PRC regulations.

Reserve fund

According to the board resolution of Changan Suzuki, RMB160,000,000 was appropriated to reserve fund from its distributable profits as at 31 December 2006. The Company's proportionate interest in this profit appropriation of RMB81,600,000 is recognised in 2006 consolidated financial statements of the Group.

According to the board resolution of Changan Ford Mazda Automobile, RMB11,526,000 was appropriated to reserve fund from its distributable profits as at 31 December 2006. The Company's proportionate interest in this profit appropriation of RMB5,763,000 is recognised in 2006 consolidated financial statements of the Group.

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

Enterprise expansion fund

According to the resolution of Changan Suzuki, RMB44,000,000 was appropriated to enterprise expansion fund from its distributable profits at 31 December 2006. The Company's proportionate interest of RMB22,440,000 is recognised in 2006 consolidated financial statements of the Group.

According to the board resolution of Changan Ford Mazda Automobile, RMB11,526,000 was appropriated to enterprise expansion fund from its distributable profits as at 31 December 2006. The Company's proportionate interest in this profit appropriation of RMB5,763,000 is recognised in 2006 consolidated financial statements of the Group.

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

19 Borrowings

	2006 RMB'000	2005 RMB'000
Current		
Bond payable (a)	512,060	-
Bank borrowings (b)		
- unsecured	1,320,951	952,787
- secured	158,500	126,150
	1,991,511	1,078,937
Non-current		
Bank borrowings (c)		
- unsecured	538,955	121,139
- secured	970,000	842,900
	1,508,955	964,039
Total borrowings	3,500,466	2,042,976

(a) In March 2006, the Company issued short-term bond with face value of RMB500,000,000, which bear interest at 3.21% per annum and are due within one year.

(b) Current bank borrowings bear interest at rates ranging from 1.70% to 6.12% per annum (2005: 4.22% to 5.58%).

Approximately RMB110,000,000 (2005: RMB88,000,000) of such loans were secured by buildings with net book value of approximately RMB76,604,000 (2005: RMB29,549,000) and land use rights with net book value RMB4,089,000(2005: RMB4,433,000) (Note 5 and 6).

Approximately RMB48,500,000 (2005: RMB38,150,000) of such loans were secured by the Group's finished goods (motor vehicles) with carrying value of RMB72,648,000 (2005: RMB39,319,000) (Note 12), of which RMB41,700,000 is borrowed from China South Industry Group Finance Co., Ltd. (an subsidiary of the ultimate parent company of the Company), which interest rate of 5.85% per annum.

(c) Non-current bank loans bear interest at rates ranging from 5.02% to 6.92% per annum (2005: 5.02% to 6.12% per annum) and RMB950,000,000 (2005: RMB 842,900,000) of such loans were guaranteed by CAC. RMB20,000,000 of such loans were secured by equipment with net book value of RMB137,514,000 (2005: Nil) and land use rights with net book value RMB20,314,000 (2005: Nil) (Note 5 and 6).

The exposure of the Group's borrowings to interest rate changes and the contractual repricing dates at the balance sheet dates are as follows:

	2006 RMB'000	2005 RMB'000

Within one year	1,991,511	1,078,937
1 - 5 years	1,458,955	864,039
Over 5 years	50,000	100,000
	3,500,466	2,042,976

The Group has the following undrawn borrowing facilities:

	2006 RMB'000	**2005 RMB'000**
Floating rate		
- expiring beyond one year	250,000	357,100

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

	2006 RMB'000	**2005 RMB'000**
RMB	3,011,511	1,659,371
US Dollar	488,955	383,605
	3,500,466	2,042,976

The fair value of borrowings approximates their carrying values.

20 Retirement benefit obligations

The amounts recognised in the balance sheet are determined as follows:

	2006 RMB'000	**2005 RMB'000**
Present value of funded obligations	31,925	25,133
Current portion	(2,034)	(2,443)
	29,891	22,690

The movement in the retirement benefit obligations over the year is as follows:

	2006 RMB'000	**2005 RMB'000**
At beginning of year	25,133	25,169
Interest cost	834	812
Amortisation of prior service cost	(54)	-
Actuarial loss	8,573	2,294
Payments	(2,561)	(3,142)
At end of year	31,925	25,133

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

a. Discount rate adopted: 3.5%;

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

c. Inflation rate: 2%

Interest cost and actuarial loss are charged in administrative expenses.

21 Deferred income

	2006 RMB'000	2005 RMB'000
At beginning of year	361,774	369,613
Addition		
- Tax credit arising from purchase of domestically manufactured machinery and equipment (a)	11,205	-
- Purchase of land use right by Changan Suzuki	-	8,135
Amortisation charge (Note 29)	(16,637)	(15,974)
At end of year	356,342	361,774

(a) In 2006, the Group obtained certain tax credit of RMB11,205,000 arising from purchase of domestically manufactured machinery and equipment. Such tax credit was recognised as deferred income during the year ended 31 December 2006.

22 Other non-current liabilities

In 2005, Changan Ford Mazda Engine Co., Ltd. (hereafter referred to as "Changan Ford Mazda Engine"), a jointly controlled entity of the Company, purchased certain land use rights in Nanjing, the PRC. According to an agreement among Changan Ford Mazda Engine, Committee of Nanjing Jiangling Economic Development District and Nanjing Jiangling Economic Development Co., Ltd. ("the Agreement"), Changan Ford Mazda Engine entitled and received a refund of RMB34,686,000 in 2005 on a condition that Changan Ford Mazda Engine should not transfer or dispose the land use rights to independent third parties with a five year period. The Company's proportionate interest in such grant of RMB17,343,000 is recognised as other non-current liabilities as at 31 December 2006.

23

Trade and other payables

	2006 RMB'000	2005 RMB'000
Trade payables	4,495,742	3,288,725
Notes payable	1,784,783	1,716,154
Other payables	1,425,537	1,264,874
Accrued expenses	898,079	700,786
Accrued sales compensation	424,551	269,622
Accrued payroll and welfare	105,988	93,066
Advances from customers	967,026	507,472
	10,101,706	7,840,699

Payables to related parties are disclosed in Note 37.

24 Derivative financial instruments

	2006 RMB'000	2005 RMB'000
Liability		
– Forward foreign exchange contracts	16,874	-

The notional principal amounts of the outstanding forward foreign exchange contracts were RMB2,126,583,000.

25 Provisions for other liabilities and charges

	2006	2005
	RMB'000	RMB'000
At beginning of year	347,511	274,259
Charged for the year (Note 29)	374,896	276,119
Utilised during year	(264,356)	(202,867)
At end of year	458,051	347,511

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

26 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.

27 Other income

	2006	2005
	RMB'000	RMB'000
Income on sales of materials	111,071	123,583
Income from financial assets (Note 36)	-	4,664
Rental income	6,501	4,347
Interest income on overdue trade receivables	7,442	2,722
Others	3,367	17,578
	128,381	152,894

28 Other (loss)/gain, net

	2006	2005
	RMB'000	RMB'000
Net foreign exchange (losses)/gains	(32,462)	33,799
Net losses on disposals of property, plant and equipment (Note 36)	(10,908)	(12,443)
Derivative financial instruments		
– Foreign exchange forward contracts	(16,874)	-
	(60,244)	21,356

29 Expenses by nature

	2006	2005
	RMB'000	RMB'000
Depreciation on property, plant and equipment (Note 5)	680,212	514,955
Amortisation of lease prepayments (Note 6)	13,452	10,759
Amortisation of intangible assets (Note 7)	12,767	10,827
Amortisation of long-term deferred assets (Note 10)	3,632	1,591
Provision for/(Reversal of) impairment of property, plant and equipment (Note 5)	18,602	(1,467)

Employee benefit expense (Note 30)	991,437	677,072
Increase of finished goods and work in progress	(191,724)	(625,353)
Raw materials and consumables used	18,952,912	14,739,076
Transportation (a)	805,974	739,141
Research and development costs	453,335	497,108
Advertising and promotion costs	631,262	345,422
Warranty expense (Note 25)	374,896	276,119
Royalty fee	322,382	221,656
Utilities	205,162	140,987
Considerations paid for share reform of an associate (b)	142,568	-
Repairs and maintenance expenditure on property, plant and equipment	119,065	110,060
Consultancy and technical support fees	121,454	98,806
Operating lease rentals – property and land use rights (Note 5)	86,402	79,338
Other taxes	37,147	22,837
(Reversal of) / Provision for slow moving and obsolete inventories (Note 12)	(3,153)	26,515
(Reversal of) / Provision for impairment of receivables (Note 13)	(541)	8,902
Reversal of provision for impairment of available-for-sale investments (Note 9)	(12,900)	-
Provision for impairment of goodwill (Note 7)	-	75,442
Provision for impairment of other non-current assets (c)	48,725	-
Government grants relating to costs	(29,342)	(50,382)
Amortisation of deferred income (Note 21)	(16,637)	(15,974)

(a) Approximate RMB719,063,000 of this expense were paid to Changan Minsheng APLL Logistics Co., Ltd., a company in which CSIG has 24.57% interests.

(b) In February 2006, according to the approved share reform scheme of Jiangling Motors, the Group paid cash of RMB142,568,000 to the tradable A-share shareholders of Jiangling Motors (Note 8).

(c) In 2005, Jiangling Holding paid RMB120,877,000 to Jiangling Automobile Group Co., Ltd. and its subsidiary in relation to the acquisition of Nanchang Jiangling Lufeng Automobile Co., Ltd. (hereafter refer to as “Jiangling Lufeng”). As at 31 December 2005, such acquisition has not been finalised and such prepayment is recognised as other non-current assets. In 2006, the management of the Group determined that the carrying amount of the net assets acquired was less than the prepayment and therefore an impairment provision of RMB48,725,000 was recognised in 2006.

30 Employee benefit expense

	2006 RMB'000	2005 RMB'000
Wages and salaries	772,438	498,016
Social security costs	115,835	104,064
Pension costs – defined contribution plans	93,811	71,886
Pension costs – defined benefit plans	9,353	3,106
	991,437	677,072

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

Pension costs – defined benefit plans represent supplementary pension subsidies provided by the Group to certain qualified employees (Note 20).

31 Finance income and costs

	2006 RMB'000	2005 RMB'000
Interest expense on borrowings (Note 36)	(142,889)	(65,677)
Interest expense on bank acceptance notes	(2,081)	(3,528)
Bank acceptance notes discounted charges	(17,210)	(11,324)
Others	(6,961)	(5,513)
Finance costs	(169,141)	(86,042)
Finance income - Interests income on bank deposits (Note 36)	57,563	62,721
	(111,578)	(23,321)

32 Taxation

	2006 RMB'000	2005 RMB'000
Current tax charge	(179,614)	(57,149)
Deferred income tax credit	23,208	88,162
	(156,406)	31,013

The tax on the Group's profit before tax differs from the theoretical amount that would arise using the tax rates applicable to the profits of the consolidated entities as follows:

	2006 RMB'000	2005 RMB'000
Profit before tax	568,571	240,913
Tax calculated at the rates applicable to the consolidated entities	(35,090)	(32,279)
Tax refund	1,339	6,793
Additional deduction arising from research and development expenditure	10,286	28,924
Expenses not deductible for tax purposes	(126,103)	(44,206)
Income not subject to tax	-	92
Effect of different tax rates applied for the periods in which the temporary differences are expected to reverse	(6,838)	61,180
Utilisation of previously unrecognised temporary differences	-	10,509
Tax (charge) / credit	(156,406)	31,013

(a) Enterprise Income Tax ("EIT")

The Company is subject to the PRC EIT and local income tax. As the Company is qualified as a domestic enterprise in encouraged industries and approved by the relevant tax authorities, the Company is entitled to a preferential EIT rate of 15% from 2001 to 2010 and is exempted from local income tax.

Changan Ford Mazda Automobile, a jointly controlled entity of the Company, is qualified as a foreign investment production enterprise and the applicable EIT rate is 15%. As approved by the tax authorities, Changan Ford Mazda Automobile is entitled to a two year exemption from income taxes followed by three years of a 50% tax reduction, commencing from the first cumulative profit-making year net of losses carried forward. Year 2006 is the third cumulative profit-making year net of losses carried forward. Accordingly, Changan Ford Mazda Automobile is entitled a 50% tax reduction and the applicable EIT rate is 7.5% in 2006.

Changan Suzuki, a subsidiary of the Company, is qualified as a foreign investment production enterprise as well as advanced technology enterprise. Accordingly, the applicable EIT rate is 15%. As approved by the tax authorities, Changan Suzuki is entitled to a two year exemption from income taxes followed by three years of a 50% tax reduction, commencing from the first cumulative profit-making year net of losses carried forward. Year 2002 was the third year of 50% tax reduction. According to Preferential Policies for Encouraging Foreign Investment issued by local government of Chongqing, Changan Suzuki is entitled to three additional years of 50% tax reduction at a minimum EIT rate of 10%. Accordingly, Changan Suzuki is subject to a preferential EIT rate of 10% for three years from 2003 to 2005. The applicable EIT rate is 15% since 2006.

As approved by relevant tax authority in 2006, Chongqing Anfu Automobile Co., Ltd. (hereafter referred to as "Chongqing Aufu"), a subsidiary of the Company, is entitled to a 50% EIT reduction for the year ended 31 December 2005. In addition, one of the branches of Chongqing Anfu is exempted from EIT for the year ended 31 December 2005. Accordingly, Chongqing Anfu received a tax refund of RMB1,339,000 in 2006 (2005: nil) and such refund has been recognised by offsetting the 2006 income tax expense upon receipt. During the year ended 31 December 2005, Chongqing Anfu and Chongqing Changan Service Co., Ltd. Also received and recognized tax refunds of RMB4,263,000 and RMB2,530,000 respectively.

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

(b) Value-Added Tax ("VAT")

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

(c) Consumption Tax (" CT")

The Group's automobile sale is subject to CT at rates ranging from 3% to 12% on the selling price of goods.

33

Earnings per share

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

	2006	**2005**
Profit attributable to shareholders of the Company (RMB thousands)	434,429	199,309
Weighted average number of ordinary shares in issue (thousands)	1,620,849	1,620,849
Basic earnings per share (RMB per share)	0.27	0.12

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 2005.

34 Dividends per share

The dividends paid in 2006 and 2005 were RMB97,251,000 and RMB518,672,000 respectively. A dividend in respect of the year ended 31 December 2006 of RMB0.6 and 2 bonus shares per 10 share, amounting to a total dividend of RMB97,251,000 and 324,170,000 shares, are to be proposed at the next Annual General Meeting. These financial statements do not reflect this dividend payable.

35 Business combinations

In March 2006, the Group complete the acquisition of all equity interests of Jiangling Lufeng. After the acquisition, the Group established a branch ("Lufeng Branch") to take up all the assets, liabilities and business of Jiangling Lufeng which was in the process of liquidation as at 31 December 2006.

Details of net assets acquired at the date of the acquisition are as follows:

i. Purchase consideration (Note 29(c))	72,152

ii. The fair value of assets and liabilities arising from the acquisition are:

Cash and cash equivalents	160,837
Property, plant and equipment	183,436
Lease prepayments	23,143
Inventories	55,419
Other current assets	63,950
Borrowings	(50,000)
Payables	(364,633)
Fair value of net assets acquired	72,152
Cash and cash equivalents acquired from the acquisition	160,837

36 Cash generated from operations

	2006 RMB'000	2005 RMB'000
Profit before tax	568,571	240,913
(Reversal of)/Provision for impairment of receivables (Note 29)	(541)	8,902
(Reversal of)/Provision for slow moving and obsolete inventories (Note 29)	(3,153)	26,515
Provision for/(Reversal of) impairment of property, plant and equipment (Note 29)	18,602	(1,467)
Reversal of provision for impairment of available-for-sale investments (Note 29)	(12,900)	-
Depreciation of property, plant and equipment (Note 29)	680,212	514,955
Amortisation of lease prepayments (Note 29)	13,452	10,759
Amortisation of intangible assets (Note 29)	12,767	10,827
Amortisation of long-term deferred assets (Note 29)	3,632	1,591
Amortisation of deferred income (Note 29)	(16,637)	(15,974)
Net loss on disposal of property, plant and equipment - net (Note 28)	10,908	12,443
Interest expense on bank borrowings (Note 31)	142,889	65,677

Interest income on bank deposits (Note 31)	(57,563)	(62,721)
Financing bonds issuance expense	1,960	-
Income from financial assets (Note 27)	-	(4,664)
Share of results of associates (Note 8)	(254,177)	(89,166)
Provision for impairment of goodwill (Note 29)	-	75,442
Provision for impairment of other non-current assets (Note 29 (c))	48,725	-
Fair value loss on derivative financial instruments (Note 28)	16,874	-
Considerations paid for share reform scheme of Jiangling Motors	142,568	-
Negative goodwill	(173)	-
Changes in working capital:		
Decrease/(Increase) in inventories	107,181	(866,610)
Increase in operating receivables	(2,972,706)	(1,029,921)
Increase in operating payables	3,755,722	2,514,763
Cash generated from operations	2,206,213	1,412,264

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

	2006 **RMB'000**	**2005** **RMB'000**
Net book amount of property, plant and equipment disposed (Note 5)	34,251	55,204
Less: Net loss on disposal of property, plant and equipment (Note 28)	(10,908)	(12,443)
Decrease/(Increase) of receivables	25,343	(31,956)
Proceeds from disposal of property, plant and equipment	48,686	10,805

37

Related party transactions

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

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

Related parties' name	Relationship
China South Industries Automobile Co., Ltd. - Chongqing Tsingshan Transmission Branch (hereafter referred to as "CSIA-Chongqing Tsingshan Transmission Branch")	Subsidiary of CSIA
China South Industries Automobile Co., Ltd. - Jian'an Automobile	Subsidiary of CSIA

Bridge Branch (hereafter referred to as “CSIA-Jian'an Automobile Bridge Branch”)	
China South Industries Automobile Co., Ltd - Sichuan Ningjiang Shock-absorbing Works Branch (hereafter referred to as “CSIA-Ningjiang Shock-absorbing Works Branch”)	Subsidiary of CSIA
Chongqing Changan Jinling Vehicles Parts Co., Ltd.	Subsidiary of CSIA
Chongqing Changfeng Jiquan Machinery Co., Ltd.	Subsidiary of CSIA
Chongqing Automobile Air-conditioner Co., Ltd.	Subsidiary of CSIA
Changan Ford Mazda Automobile Co., Ltd.	Jointly controlled entity of the Company
Changan Ford Mazda Engine Co., Ltd.	Jointly controlled entity of the Company
Jiangling Motors Co., Ltd.	Associate of the Company
Changan Automobile Group Co. Ltd.	Subsidiary of CSIG
Chongqing Changan Automobile Manufacturing Factory	Subsidiary of CSIG
Chongqing Changan Transportation Company	Subsidiary of CSIG
Chongqing Changan Construction Co., Ltd.	Subsidiary of CSIG
Chongqing Jiangli Machinery Factory	Subsidiary of CSIG
Chongqing Jiangchao Engine Industry Co., Ltd.	Subsidiary of CSIG
Baoding Chang’an Car Manufacturing Co., Ltd.	Subsidiary of CSIG
Chongqing Changan Support Services Co., Ltd.	Subsidiary of CSIG
Chongqing Haitai Property Management Co. Ltd.	Subsidiary of CSIG
Chongqing Guohao Automobile Sales Co. Ltd.	Subsidiary of CSIG
Chongqing HelpGo Information Technology Co., Ltd.	Associate of the Company
Chengdu Wanyou Economic Technological Development Co., Ltd.	Subsidiary of CSIG
Chongqing Wanyou Economic Development Co., Ltd.	Subsidiary of CSIG
Southwest Industries Corporation	Subsidiary of CSIG
Sichuan Jianan North Automobile Bridge Co., Ltd.	Subsidiary of CSIG
Chongqing Jianshe Automobile Air-conditioner Co., Ltd.	Subsidiary of CSIG
Longchang Shanchuan Shock-absorbing Works Industries Co., Ltd.	Subsidiary of CSIG
Yunnan Xiyi Industries Co., Ltd.	Subsidiary of CSIG
Hubei Xiaogan Huazhong Automobile Light Co., Ltd.	Subsidiary of CSIG
Chongqing Jiangchuan Machinery Factory	Subsidiary of CSIG
Chongqing Changjiang Electrics (Group) Co., Ltd.	Subsidiary of CSIG
Chongqing Yihong Engineering Plastic Products Co., Ltd.	Subsidiary of CSIG
Sichuan Huaqing Machinery Co., Ltd.	Subsidiary of CSIG
Chongqing Changfeng Machinery Co., Ltd.	Subsidiary of CSIG
Chengdu Lingchuan Machinery Factory	Subsidiary of CSIG
Chongqing Hongyu Precision Industries Co., Ltd.	Subsidiary of CSIG
Sichuan Hongguang Machinery and Electrics Co., Ltd.	Subsidiary of CSIG
China Yanxing Northwest Co.	Subsidiary of CSIG
Chongqing Wanbin Material Co., Ltd.	Subsidiary of CSIG
Chongqing Jiangling Construction Co., Ltd.	Subsidiary of CSIG
Chongqing Changan Real Estate Development Co., Ltd.	Subsidiary of CSIG
Chongqing Anlan Materials Co., Ltd.	Subsidiary of CSIG
Chongqing Xinlihua Spare Parts Co., Ltd.	Subsidiary of CSIG
Chongqing Changan Design Academy	Subsidiary of CSIG
China South Industry Group Finance Co., Ltd.	Subsidiary of CSIG

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

(1) Sales of goods and services

	2006	2005
	RMB’000	RMB’000

Sales of goods (excluding VAT):		
Jointly controlled entity (a)	5,827	12,714
Subsidiary of CSIA	78,841	107,810
Subsidiaries of CSIG	1,390,084	1,199,325
Other state-owned enterprises	936,772	706,047
Rental income:		
Subsidiary of CSIG	4,347	4,347

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

	2006 RMB'000	2005 RMB'000
Purchase of goods (excluding VAT):		
Jointly controlled entity (a)	155,522	163,276
Associate of the Company	204,787	-
Subsidiaries of CSIA	1,245,774	536,920
Subsidiaries of CSIG	838,918	1,927,903
Other state-owned enterprises	2,136,259	1,767,594
Purchase of property, plant and equipment		
Associate of the Company	14,611	41,227
Subsidiaries of CSIA	3,664	-
Subsidiaries of CSIG	17,192	297,705
Other state-owned enterprises	36,088	6,590

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

(3) Other transactions

	2006 RMB'000	2005 RMB'000
Jointly controlled entity (a)		
-- Consultancy and technical support service	6,169	9,879

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

Associate of the Company		
--Technology service fee	41,645	36,277
--Miscellaneous expense	1,351	-

(3) Other transactions

	2006 RMB'000	2005 RMB'000
Subsidiaries of CSIG		
--Logistic service fee:	1,393	721,638
--Sales of properties, plant and equipment	-	20,872
--Property management fee	-	7,756
--Loan interest expense	2,436	1,789
--Miscellaneous expense	-	3,932
--Consultancy and technical support service	3,758	-

--Borrowing	333,803	-
--Repayment of borrowing	330,253	75,000
--Trademark fee	10,329	13,416
--Lease of land use right	12,557	6,077
--Building rental fee	19,068	16,618
--Water and electricity fee	66,651	76,781
--Welfare	38,207	38,432
--Telephone charges	-	1,398
--Education fee	4,240	6,950
--Security and fire fighting fee	9,996	8,834
--Labours' union fee	5,653	5,690
--Others	6,055	7,679
Other state-owned enterprises		
--Advertisement expense	17,913	16,493
--Interest income	70,632	58,458
--Interest expenses	212,438	65,268
--Purchase of service	4,995	-
--Miscellaneous expense	2,632	-
--Borrowings	1,714,652	1,747,766
--Repayment of borrowings	1,306,967	1,399,054

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

	2006 RMB'000	2005 RMB'000
Receivables from related parties:		
Jointly controlled entities (Note a)	8,831	12,348
Subsidiary of CSIA	178	-
Subsidiaries of CSIG	160,523	161,610
Other state-owned enterprises	2,122,664	1,416,728
	2,292,196	1,590,686
Prepayments to related parties:		
Associate of the Company	354	-
Jointly controlled entity (Note a)	5,006	2,880
Subsidiary of CSIA	2,473	-
Subsidiaries of CSIG	605	-
Other state-owned enterprises	174,251	319,184
	182,689	322,064

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

	2006 RMB'000	2005 RMB'000
Payables to related parties:		
Associates of the Company	23,408	18,200
Jointly controlled entity (a)	1,216	3,144
Subsidiaries of CSIA	143,725	32,749
Subsidiaries of CSIG	265,193	559,378
Other state-owned enterprises	2,034,173	1,771,211
	2,467,715	2,384,682

Loans from related parties:

	2006	2005
Subsidiary of CSIG	41,700	38,150
Other state-owned enterprises	2,807,595	2,017,975
	2,849,295	2,056,125

	2006 RMB'000	2005 RMB'000
Deposits in related parties:		
Subsidiary of CSIG	161,519	-
Other state-owned enterprises	4,861,696	3,393,285
	5,023,215	3,393,285

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

(5) Directors' remuneration

In 2006, the total remuneration of the directors was RMB4,936,000 (2005: RMB2,922,000).

(6) *Others*

CAC, a subsidiary of CSIG, has provided a guarantee for the Company to obtain bank borrowings of RMB950,000,000 (2005: RMB842,900,000) (Note 19).

38 **Principal subsidiaries**

Details of the Company's subsidiaries are as follows:

Entity	Equity interest (%) 2005	Equity interest (%) 2006	*Country of incorporation*	*Principal activities*
Chongqing Changan Automobile Import and Export Co., Ltd. ("Changan Import and Export")	95	95	PRC	Import and export, sale of automobiles and spare parts
Chongqing Changan Automobile Sales Co., Ltd. ("Changan Sales")	100	100	PRC	Sale of automobiles, engines and spare parts
Chongqing Changan Suzuki Automobile Co., Ltd.	51	51	PRC	Manufacture and sale of automobiles and spare parts
Nanjing Changan Automobile Co., Ltd. ("Nanjing Changan")	71.86	71.86	PRC	Manufacture and sale of mini automobiles and spare parts
Hebei Changan Automobile Co., Ltd. ("Hebei Changan")	77.27	77.72	PRC	Manufacture and sale of auto-mobiles and spare parts
Chongqing Anfu Automobile Co., Ltd. ("Chongqing Anfu")	50	50	PRC	Sale of automobiles and spare parts
Chongqing Changan Special Automobile Co., Ltd. ("Changan Special")	50	50	PRC	Sale of special automobiles and spare parts, automobile repair
Chongqing Changan Service Co., Ltd.	99	99	PRC	Sale of automobiles and spare parts
Jiangxi Jiangling Holding Co., Ltd. ("Jiangling Holding")	50	50	PRC	Investment, foreign trading
Shantou Lufeng Automobile Sales Co., Ltd.	70	70	PRC	Sale of automobiles and related products

Sales Companies	80-100	80-100	PRC	Sale of automobiles and spare parts
Changan Automobile European Designing Center S.R.L	-	100	Italy	Automobile design

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

39 Interest in a jointly controlled entities

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

Entity	Equity interest (%) 2005	2006	Country of incorporation	Principal activities
Changan Ford Mazda Automobile	50	50	PRC	Manufacture and sale of automobiles and spare parts
Changan Ford Mazda Engine	50	50	PRC	Manufacture and sale of automobile engines

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

	2006 RMB'000	2005 RMB'000
Assets:		
Property, plant and equipment	2,854,633	1,224,829
Lease prepayment	182,571	186,590
Deferred income tax assets	77,931	57,940
Current assets	3,089,758	2,373,724
	6,204,893	3,843,083
Liabilities:		
Deferred income	(75,811)	(77,383)
Borrowings	(488,955)	(383,605)
Provisions	(163,737)	(87,913)
Other current liabilities	(3,319,973)	(2,253,181)
Other non-current liabilities	(17,343)	(17,343)
	(4,065,819)	(2,819,425)
Net assets	2,139,074	1,023,658
Sales	8,666,421	4,411,408
Operating profit	585,763	63,029
Profit for the year	497,268	143,758
Proportionate interest in jointly controlled entities' commitments as at 31 December 2006	531,128	341,932

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

40 Commitments

(1) Capital commitments

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

	2006 RMB'000	2005 RMB'000
Property, plant and equipment	13,721,512	1,003,433
Land use rights	-	2,035
	13,721,512	1,005,468

(2) Operating lease commitments – group company as lessee

The future aggregate minimum lease payments contracted for under non-cancelled operating lease agreement at the balance sheet date but not recognised in the financial statements is as follows:

Lease of buildings	2006 RMB'000	2005 RMB'000
No later than 1 year	19,385	19,873
Later than 1 year and no later than 5 years	68,792	72,005
Later than 5 years	19,688	36,005
	107,865	127,883

Lease of land use rights

No later than 1 year	6,813	6,463
Later than 1 year and no later than 5 years	27,254	25,853
Later than 5 years	12,238	13,066
	46,305	45,382

(3) Production technology development

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

	2006 RMB'000	2005 RMB'000
Not later than 1 year	105,950	109,751
Later than 1 year and not later than 5 years	1,127	18,939
	107,077	128,690

41 Events after the balance sheet date

(1) On 16 March 2007, the National People's Congress approved the *Corporate Income Tax Law of the People's Republic of China* (the new "CIT Law"). The new CIT Law reduces (increases) the corporate income tax rate for domestic enterprises (foreign invested enterprises) from 33% (15% or 24%) to 25% with effect from 1 January 2008. The new CIT Law also provides for preferential tax rates, tax incentives for prescribed industries and activities, grandfathering provisions as well as determination of taxable profit. As at the date that these financial statements are approved for issue, detailed measures concerning these items has yet to be issued by the State Council. Consequently, the Group is not in a position to assess the impact, if any, to the carrying value of deferred tax assets and liabilities as at 31 December 2006. The Group will continue to evaluate the impact as more detailed regulations are announced.

(2) In March 2007, the Company issued one-year short-term bonds, amounting to RMB500,000,000, and the interest rate is 3.65% per annum.

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

		Net assets (excluding minority interests)	Net profit attributable to the Company's equity holders
		As at 31 December 2006 RMB'000	For the year ended 31 December 2006 RMB'000
	As reported in the accounts of the Group under PRC accounting regulations	7,306,779	646,750
1.	Staff and workers' bonus and welfare fund charged to income statement	-	(7,650)
2.	Reversal of revaluation made in 1995	(13,739)	858
3.	Deferred income tax	201,320	22,591
4.	Government grants relating to assets	(231,249)	12,412
5	Government grants relating to income	-	28,313
6.	Tax credit arising from purchase of domestically manufactured machinery and equipment	(42,646)	(4,822)
7.	Reversal of amortisation of goodwill	21,875	12,454
8.	Pre-operating expense of Changan Ford Mazda Engine and branch of Changan Ford Mazda Automobile	(301,050)	(195,576)
9.	Provision for impairment of goodwill	(75,442)	-
10.	Liabilities not to be settled	-	2,442
11.	Difference in share of result of associates	(41)	3,877
12.	Cash considerations paid for share reform of an associate	(71,284)	(71,284)
13.	Fair value loss on derivative financial instruments	(16,874)	(16,874)
14.	Others	1,187	938
	As restated in conformity with IFRS	6,778,836	434,429

XII. Documents for inspection

1. Financial statements with signatures and stamps of the legal representative, the head of the accounting and the head of accounting departments.

2. The original copy of audit report with the stamp of the CPA firm and the signature and stamp of the Certified Public Accountant.

3. All the original documents and manuscripts of the Company which has been disclosed in the reporting period in the newspapers designated by China Securities Regulatory Commission.

4. Annual reports published in other securities markets.

Chairman of the Board of Directors: Mr. Yin Jiaxu

General Manager: Mr. Zhang Baoling

Chongqing Changan Automobile Company Limited
12 April 2007