

**Chongqing Changan Automobile
Company Limited
2007 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, misleading statements or significant omissions, and assume individual and joint liabilities for the truthfulness, accuracy and integrity of the annual report.

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

Directors absent from the meeting.

Name of the Director	Reasons for the absence	Name of the consignee
Wang Tingwei	On Business	Cui Yunjiang
Xia Donglin	On Business	Gao Zhikai
Wen Zongyu	On Business	Gao Zhikai

The auditor of the Company, ERNST&YOUNG DA Ha Certified Public Accountants issued an unqualified audit report.

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

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

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II. General Introduction to the Company

1. The Company's legal Chinese name: 重庆长安汽车股份有限公司
The Company's legal English name: Chongqing Changan Automobile Company Limited
2. Legal representative of the Company: Mr. Yin Jiayu
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:
CPA firm: ERNST&YOUNG DA Ha CPA
Address: 23th Floor Jingan District changle road No. 989 the centry commercing building the Shanghai.

III. Extracts of Accounting and Operating Data

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

Sales profit	686,913,712
Total profit	653,939,067
Net profit of attributing to listed company shareholders	666,893,972
Attribute to listed company shareholder net profit except unusual loss and profit	667,475,926
Net cash flow for sales	487,637,714
Cash and working things profit	-216,626,380
Remarks: except unusually profit and loss project and cash	
Profit and loss arising from the disposal of non-current assets	-18,807,055
Government grants	12,936,000
Donation expenditure on public welfare	-2,881,743
Gain from penalty	1,149,228
Others	-371,866
Effect of the non-recurring profit and loss on income tax	355,684
net effect on the profit and loss attributable to minority shareholders	7,037,798
TOTAL	-581,954

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

Accountant difference adjustment list	Nov.31,2007	2007annual
	Net assets	Net profits
Workout accountant according to the enterprise accounting rule and system under the PRC	7,573,068,688	666,893,972
Adjustment of according to international accounting rules		
1.Reduce corporation income tax on the basis of purchasing national equipments	-107,627,396	-64,980,591
2.Payment to currency shareholders of A share cash opposite price	-71,284,065	
Workout accountant according to the international finance report rules	7,394,157,227	601,913,381

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

	2007	2006		2005
		Before adjustment	After adjustment	
Sales income	13,722,299,143	25,675,344,365	12,153,773,038	19,168,549,598
Total profit	653,939,067	861,099,955	503,800,840	365,759,322
Net profit of attributing to listed company shareholder	666,893,972	646,749,740	519,444,805	236,750,289
Attribute to listed company shareholder net profit except unusual loss and profit	667,475,926	661,805,091	515,011,929	228,720,842
net Cash flow for sales	487,637,714	2,113,850,121	720,095,715	1,361,892,206
Net Cash flow for per share	0.25	1.30	0.26	0.84
	2007 end	2006 end		2005 end
		Before adjustment	After adjustment	
Total assets	14,352,917,723	23,232,141,014	14,458,964,646	18,651,497,629
All right (for shareholder rights)	7,573,068,688	7,306,779,344	6,972,513,900	6,731,716,798
Net per profit of attributing to listed company shareholders	3.89	4.51	3.58	4.15

Remarks: Not adjust 2005 data according to the new accounting rules

4. According to China securities supervisor committee <<NO. 9 open securities company information >> in reporting period assets net profit rate and profit per share.

	2007	2006		2005
		Before adjustment	After adjustment	
Basic profit per share	0.34	0.40	0.27	0.15
Reduct per profit	0.34	0.40	0.27	0.15
Basic profit per share except unusually profit and loss share	0.34	0.41	0.26	0.14
Apportion net profit rate	8.81%	8.85%	7.70%	3.52%
Average net profit rate	9.20%	9.24%	7.70%	3.49%
Apportion net profit rate except unusually profit and loss	8.81%	9.06%	7.39%	3.40%
Average net profit rate except unusually profit and loss	9.22%	9.46%	7.63%	3.37%

Remarks: Not adjust 2005 data according to the new accounting rules

IV. Changes in Shareholdings and Information about Shareholders

1. Changes in shareholdings (Unit: share)

(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	738,270,724	45.55%		147,654,146		-4658	147,649,488	885,920,212	45.55%
1. State-owned shares									
2. State-owned legal person shares	738,255,200	45.55%		147,651,040			147,651,040	885,906,240	45.55%
3. Other domestic-holding shares, including:	15,524			3,106		-4658	-1,552	13,972	
Domestic legal person shares									
Domestic natural person shares	15,524			3,106		-4658	-1,552	13,972	
4. Foreign-hold shares, including:									
Foreign legal person shares									
Foreign natural person shares									
II. Circulated shares	882,578,476	54.45%		176,515,694		4658	176,520,352	1,059,098,828	54.45%
1. Domestic listed RMB shares	462,578,476	28.54%		92,515,694		4658	92,520,352	555,098,828	28.54%
2. Domestic listed foreign shares	420,000,000	25.91%		84,000,000			84,000,000	504,000,000	25.91%
3. Overseas listed foreign shares									
4. Others									
III. Total shares	1,620,849,200	100%		324,169,840			324,169,840	1,945,019,040	100%

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

(2). Listing schedule of non-circulated shares:

Shareholder name	Non-circulated shares in early this year	Non-circulated shares this year	Additional non-circulated shares	Non-circulated shares at the end of year	Reason	Date
CHINA SOUTH INDUSTRY AUTOMOBILE COMPANY LIMITED	36,912,760		7,382,552	44,295,312	acceptance	5.11,2008
CHINA SOUTH INDUSTRY AUTOMOBILE COMPANY	36,912,760		7,382,552	44,295,312	acceptance	5.11,2009

LIMITED						
CHINA SOUTH INDUSTRY AUTOMOBILE COMPANY LIMITED	664,429,680		132,885,936	797,315,616	acceptance	5.11,2010
YunJiaxu	6,653	1,996	1331	5,988	holding	5.18,2007
WangChongsheng	6,653	1,996	1,331	5,998	holding	5.18,2007
RenQiang	2,218	666	444	1,996	holding	5.18,2007
Total	738,270,725	4,658	147,654,146	888,920,212		

2.Issue and Listing of Shares

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

(2) In the reporting period, our company come out 2006 profit plan. The basis of total shares 1,620,849,200 on 31th Dec. 2006, donating 2 share, giving interest 0.6 RMB (including tax). All the shareholders gets the agreement at 2006 shareholder meeting on 15th May 2007. A share interest rights registrate date is 29th Jun.2007, Ex. Right and ex.dividend date is 2nd Jul,2007.B share final dealing date is 29th Jun, 2007, ex dividend date is 2nd Jul, 2007, registry date is 4th Jul 2007,the total assets up to 1,945,019,040.

3.Information about the shareholders

(1) The ten largest shareholders information

Total number of shareholders	Totalled 127,105, of which 95,360 were A share shareholders and 31,745 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%	885,906,240	885,906,240	0
CREDIT SUISSE (HONG KONG) LIMITED	Foreign	3.27%	63,522,278		
CMBS ARE FTIF TEMPLETON ASIAN GRW FD GT15496	Foreign	1.93%	37,612,561	0	Unknown
YULONG SECURITIES INVESTMENT FUND	other	1.45%	28,242,088	0	Unknown
BANK OF COMMUNICATIONS—BOSHI XINYE AFFUENCE SHARES TYPE INVESTMENT FUND	other	1.18%	22,999,877	0	Unknown
BOSHI VALUE ADDED SECURITIES INVESTMENT FUND	other	1.13%	21,999,346	0	Unknown
INDUSTRIAL AND COMMERCIAL BANK OF CHINA—JINSHUN GREE WALL SEPARATION FINANCIAL SHARES TYPE SECURITIES INVESTMENT FUND	other	0.81%	15,819,876	0	Unknown
XINGYE BANK COMPANY LIMITED—XINGYE TREND INVESTMENT MIX TYPE SECURITIES INVESTMENT FUND	other	0.72%	14,045,323	0	Unknown
CONSTRUCTION BANK OF CHINA—TAITA HOLLAND BANK MARKET VALUE SEPARATION SHARES TYPE SECURITIES INVESTMENT FUND	other	0.72%	14,003,138	0	Unknown
INDUSTRIAL AND COMMERCIAL BANK OF CHINA—YIFANGDA VALUE AFFUENCE MIX TYPE SECURITIES INVESTMENT FUND	Other	0.71%	13,873,432	0	Unknown
The ten largest circulated shareholders					
Name of shareholders	Shares at the year end			Type of shares	
CREDIT SUISSE (HONG KONG) LIMITED	63,522,278			RMB Ordinary share	
CMBS ARE FTIF TEMPLETON ASIAN GRW FD GT15496	37,612,561			RMB Ordinary share	
YULONG SECURITIES INVESTMENT FUND	28,242,088			RMB Ordinary share	
BANK OF COMMUNICATIONS—BOSHI XINYE AFFUENCE SHARES TYPE INVESTMENT FUND	22,999,877			RMB Ordinary share	
BOSHI VALUE ADDED SECURITIES INVESTMENT FUND	21,999,346			RMB Ordinary share	
INDUSTRIAL AND COMMERCIAL BANK OF CHINA—JINSHUN GREE WALL SEPARATION FINANCIAL SHARES TYPE SECURITIES INVESTMENT FUND	15,819,876			RMB Ordinary share	
XINGYE BANK COMPANY LIMITED—XINGYE TREND INVESTMENT MIX TYPE SECURITIES INVESTMENT FUND	14,045,323			RMB Ordinary share	
CONSTRUCTION BANK OF CHINA—TAITA HOLLAND BANK MARKET VALUE SEPARATION SHARES TYPE SECURITIES INVESTMENT FUND	14,003,138			RMB Ordinary share	
INDUSTRIAL AND COMMERCIAL BANK OF CHINA—YIFANGDA VALUE AFFUENCE MIX TYPE SECURITIES INVESTMENT FUND	13,873,432			RMB Ordinary share	

BANK OF CHINA—JINSHUN GREAT WALL HIGH PROFIT SHARES TYPE OPEN SECURITIES INVESTMENT FUND	13,765,485	RMB Ordinary 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 <i>Administrative Measures on Information Disclosure Concerning Changes in Shareholdings of Listed Companies</i> . The company did not know whether there was relationship among the large ten circulated shareholders, and nor knew whether they were the parties who agreed to act alike as stipulated in <i>Administrative Measures on Information Disclosure Concerning Changes in Shareholdings of Listed Companies</i> .	

2. The controlling shareholder

Controlling shareholder: China South Industry Automobile Co.Ltd

Legal representative: Xu Bin

Date of establishment: Dec 26th, 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.

3.The ultimate parent of the controlling shareholder

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

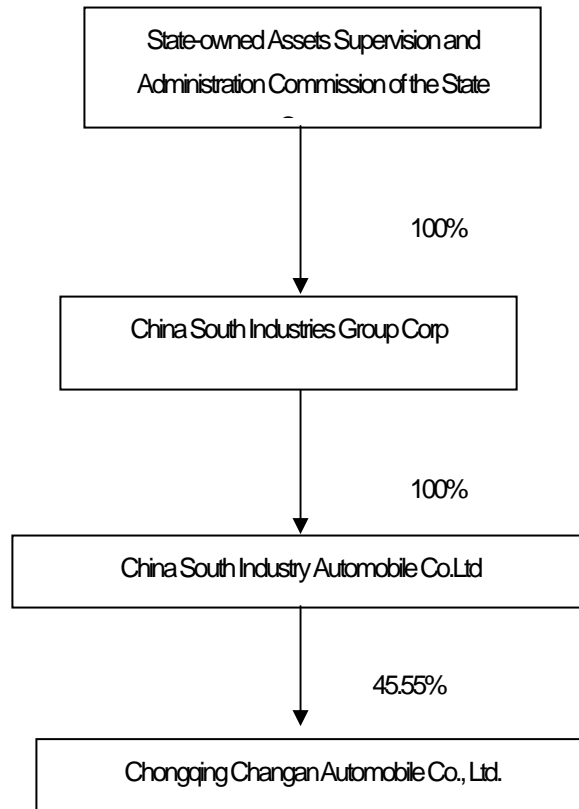
Legal representative: Xu Bin

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.

4.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	51	2006.05-2009.05	6,653	6,653	Distributed shares
Xu Liuping	Vice Chairman,	M	43	2006.05-2009.05	0	0	
Zhang Baolin	Director, General manager	M	45	2006.05-2009.05	0	0	
Deng Tengjiang	Director	M	51	2006.05-2009.05	0	0	
Wang Tingwei	Director	M	36	2006.05-2009.05	0	0	
Deng Zhiyou	Director	M	44	2006.05-2009.05	0	0	
Wang Chongsheng	Director	M	49	2006.05-2009.05	6,653	7,984	Share outbonus
Zou Wenchao	Director, Executive Vice President of Changan Ford Mazda Automobile Co.	M	44	2006.05-2009.05	0	0	
Ma Jun	Director	M	48	2006.05-2009.05	0	0	
Cui Yunjiang	Director, Senior Deputy General Manager, Board Secretary	M	44	2006.05-2009.05	0	0	
Guo Konghui	Independent Director	M	72	2006.05-2009.05	0	0	
Xia Donglin	Independent Director	M	46	2006.05-2009.05	0	0	
Gao Zhikai	Independent Director	M	45	2006.05-2009.05	0	0	
Wen Zongyu	Independent Director	M	44	2006.05-2009.05	0	0	
Liu Wei	Independent Director	M	43	2006.05-2009.05	0	0	
Shi Yubao	Organizer of the Board of Supervisors	M	54	2006.05-2009.05	0	0	
Cui Xiaomei	Supervisor	F	52	2006.05-2009.05	0	0	
Cao Dongping	Supervisor	F	54	2006.05-2009.05	0	0	
Xiong Hulin	Supervisor	F	48	2006.05-2009.05	0	0	
Zhu Zhiping	Supervisor	M	45	2006.05-2009.05	0	0	
Hua zhanbiao	Supervisor	M	40	2006.05-2009.05	0	0	
Fu Xiangyu	Supervisor	F	52	2006.05-2009.05	0	0	
Ying Zhanwang	Senior Deputy General Manager	M	48	2006.05-2009.05	0	0	
Zhu Huarong	Senior Deputy General Manager	M	42	2006.05-2009.05	0	0	
Huang Zhongqiang	Senior deputy general manager	M	39	2006.05-2009.05	0	0	
Zou Yi	Senior Deputy General manager	M	44	2006.05-2009.05	0	0	
Ren Qiang	Senior Deputy General manager	M	47	2006.05-2009.05	2,218	2,662	Share outbonus
Song Jia	Senior Deputy General manager	M	42	2006.05-2009.05	0	0	
Luo Minggang	Senior Deputy General manager	M	44	2006.05-2009.05	0	0	
Zhang Zhao	Deputy general manager	M	39	2008.01-2009.05	0	0	
Li Jun	Board Secretary	F	38	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	2007.1-

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, General Manager of CAC and the Secretary of Party Committee.. 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,

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 , Vice President and General manager of Management Department of China South Industries Automobile Ltd.Co., Director, Board Chairman , Secretary of Party Committee and General Manager of Taiyuan South Heavy Vehicle Ltd. Co.

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 and Secretary of Party Committee.

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 Dongjin, 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 Consultant 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 Investment Company. He is currently the General Manager of Board of Houpu Investment and Management Company, Chairman of China Association for International Relation and the International Chairman of Asia Association and the Law Consultant of China Mayor Association.

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. He is the Independent Director of Chongqing Jianfeng Chemical Joint-stock Company.

(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 Machinery 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, Supervisor, 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, Vice Director and Director of the Finance Department of CAC, She is currently the Secretary of Party Committee of the Finance Department of CAC.

Ms. Xiong Huijin, 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 and the Vice Secretary of Party Committee 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, Director of the Salary Management and the Vice-Head and the Head of the Human Resource Department of the Company. He currently serves as Deputy General Manager of Changan Suzuki Automobile 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 the Head of Audit Department 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. 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.1 Technology 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.

MR. Zhang Zhao , Vice General Manager and Executive Vice President of Changan Ford Mazda Engine Company and Secretary of Party Committee, was born in 1968.. He has a Master's Degree in Engineering, is a senior engineer. He used to serve as the engineer of the Changan Engine Technology Department , Vice Director of Workshop No.134 of Automobile Manufacturing Factory, Director of Assembly Department No.2 of Engine Company and Secretary of Party Committee, Vice Director and Director of Quality Control Department ,Vice Director of the General Manager's Office, Manager and Secretary of Party Committee of Purchase Department of Engine Manufacturing Factory , Director and Secretary of Party Committee of Supplies Department, Director and Secretary of Party Committee of Business Operation Department, 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 2007, 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 2007(In RMB 10 thousand)
Zhang Baolin	Director, General Manager	42.07
Zou Wenchao	Director, Executive Vice President of Changan Ford Mazda	41.70
Cui Yunjiang	Director, Senior Deputy General Manager, and Board Secretary	36.14
Guo Konghui	Independent Director	5
Xia Donglin	Independent Director	5
Gao Zhikai	Independent Director	5
Wen Zongyu	Independent Director	5
Liu Wei	Independent Director	5
Xiong Hulin	Supervisor	12.57
Zhu Zhiping	Supervisor	12.08
Hua Dubiao	Supervisor	11.50
Fu Xiangyu	Supervisor	10.71
Ying Zhanwang	Senior Deputy General Manager	41.30
Zhu Huarong	Senior Deputy General Manager	39.85

Huang Zhongqiang	Senior Deputy General Manager	40.42
Zou Yi	Senior Deputy General Manager	35.21
Ren Qiang	Senior Deputy General Manager	31.20
Song Jia	Senior Deputy General Manager	30.36
Luo Minggang	Senior Deputy General Manager	14.23
Zhang Zhao	Deputy General Manager	15.58
Li Jun	Board Secretary	7.61
Total		447.53

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 Cui Xiaomei, Cao Dongping.

4. During the reporting period, the directors, supervisors, and senior managers are not changed in their post

The matters after the reporting period: after taking a vote and passing through the fourteenth session of the Board of Director's fourth meeting on January 25, 2008, Mr. Jia Tingyue was no longer the Senior Deputy General Manager of the Company due to employment change, Mr. Ren Qiang, Mr. Song Jia, Mr. Luo Minggang were appointed to the position of the Senior Deputy General Manager of the Company. Mr. Zhang Zhao was appointed to the position of the Deputy General Manager of the Company.

5. The Employees of the Company

By the end of the year, total headcount of the Company was at 7,961, including 4,015 production workers, 901 salespersons, 2,009 technicians, 155 finance staff, and 638 administrative staff, and 243 others. Of the total, there were 12 with doctorate degree, 174 with master degree, 2,327 with bachelor degree, and 1,311 with college education or above, 4,137 others..

The Company should pay the piper for 1,970 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.

In the report period, the Company has carried out the corporate governance and completed the three-phase work of the self-inspection on the corporate governance of the Company, receiving the review from the public and the improvement & advancement according to the China Securities Regulatory Commission Document [2007] No. 28 the Notice on Strengthening the Related Issues of the Special Governance of Listed Companies and the Supervision Suggestions on the governance of Changan Automobile Company issued by Chongqing Securities Regulatory Bureau, the China Securities Regulatory Commission under the arrangement of Chongqing Securities Regulatory Bureau, and Shenzhen Stock Exchange.

According to the plan of the self-inspection, the Company has inspected completely and thoroughly the self-inspection items listed in the Notice, and found out the factors effecting the corporate governance. According to the self-inspection, the main problems to be improved on the corporate governance as follows:

- (1) The special committee under the Board of Directors is not perfect. The salaries and remunerations of the Company and the operation system of the assess committee need to be improved;
- (2) The accumulative voting system has not been adopted yet when the Company selects the directors and the supervisors;
- (3) The Company's interior control system establishment needs to be further strengthened, and some management regulations needs to be improved
- (4) The Management of Information Release of the Company needs to be strengthened.

The Report of the Corporate Governance and Self-Examination and the Improvement Plan were reviewed, discussed and passed on the eighth session of The Board of Director's fourth meeting on June 29, 2007, and declared on China Securities, Securities Daily, Hong kong Business and Juchao Consult Web on June 30.

In the public comment and discussion period, the Company published the related documents of the Corporate Governance in the Column of the Corporate Governance on the web of Shenzhen Stock Exchange (<http://www.szse.cn>). The Company has published the contact way for the public comment & discussion on the Corporate Governance so as to accept the opinion and suggestions from the investors and social public.

In the improvement period, the Company has made improvement on solving the problems existed in the Corporate Governance, the details are as follows:

(1) Establishing the Board of Auditors

The Work Detailed Rules of the Board of Auditors was drawn up by the Company's Auditing & Supervision Department according to the improvement plan. The proposal of setting up the Board of Auditors was passed through the ninth session of the Board of the Director's fourth meeting on August 24, 2007, and the members of the First Board of Auditors were selected.

(2) Amendment of Articles of Association, which specifies the accumulated voting system is adopted when the directors and supervisors are selected.

According to the improvement plan, the Company has amended the Articles of Association in accordance with lawyers' opinions. The proposal of amendment of Articles of Association was passed through the ninth session of the Board of Director's fourth meeting on August 24, 2007 and submitted to and passed through the 2007 second general meeting of the temporary shareholders on Sep. 21, 2007.

(3) Amendment and improvement of the Standard of Interior Control.

According to the improvement plan, the Standard of Interior Control was amended and improved by the Company's Auditing & Supervision Department. The System of Standard of Internal Control was further perfected and passed through the ninth session of the Board of Director's fourth meeting on August 24, 2007.

(4) Amendment of Detailed Rules of the General Managers and drawing up the Working Regulations of Independent Directors

According to the improvement plan, the company amended and improved the Detailed Rules of the General Managers and drew up the Working Regulations of Independent Directors which were passed through ninth session of the Board of Director's fourth meeting on August 24, 2007.

(5) Establish the communication system of information release for the related company and strengthen the active information release.

According the improvement plan, the Company has established the communication system for the company to which the confused information is easily made, specified the duty unit for both parts, and designated the specially assigned persons for the

information and working communication and has achieved the effect. The Company will further strengthen the Active Information Release on the base of the specification of the Information Release

The Company will strictly carry out the Company's Rules and the Interior Control System in accordance with the requirements of the Notice on Strengthening the Related Work of the Special Corporate Governance of Listed Companies and Regulations for the Corporate Governance of Listed Companies and improving the relevant exchange management, enhance the information release and transparency of the company, and continuously improve the system of the Corporate Governance for the rapid and healthy development of the Company.

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	7	1		
Xia Donglin	8	7		1	
Wen Zongyu	8	7	1		
Gao Zhikai	8	7		1	
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. Establishment and improvement of the Interior Control System

(1) Summarize of the interior control system

In the report period, the company has been complying with the China Securities Regulatory Commission Document [2007] No. 28 the Notice on Strengthening the Related Issues of the Special Corporate Governance of Listed Companies and the Guidelines of Interior Control System of the Listed Company issued by Shengzhen Stock Exchange, aiming at the establishment, improvement and implementation of the Interior Control System of the Company, emphasizing the implementing process supervision and further improving the complete and strict Interior Control system of the Company on the base of the Articles of Association, the Standard of the Interior Control System, Production Management System, finance System and Information Release system

(2) Organisation System of Interior Control of the Company

The Board of the Directors is responsible for the establishment, supervision and implementation of the System of Interior Control of the Company. The main duties: making decision and improvement of the policy and plan of the Interior Control of the Company, supervision of the execution of the Interior Control, approval of the audit plan, reviewing the interior audit report and the self-evaluating report of inter control and making the improvement and countermeasures against the fatal control defect and risk.

The Company's management echelon is responsible for the establishment and effective execution of the Interior Control of the Company. The main duties: establishing and implementing the plan of the Interior Control System of the Company, guaranteeing the effective execution of the Interior Control System, approval of the self-inspection plan of the Interior Control System, organizing and

carrying out the examination and evaluation of the Interior Control and reporting to the Board of the Directors, executing the improvement and countermeasures made by the Board of the Directors against the fatal control defect and risk.

In order to accommodate the management of the production & business and development of operation, the perfect organization system of Interior Control System is established at the Company's management echelon. The three-level responsible system is conducted for the Interior Control System of the Company. Each of the operation departments is responsible for the execution of the interior control of its unit; the Administrative Information Department is responsible for the ordinary management and maintenance of the interior control; The Company's Audit & Supervision Department is responsible of the supervising and auditing the execute of the interior control.

(3) Establishment of the Supervision Department of the Interior Control System of the Company

In order to establish and improve the interior control system of the Company and effectively execute the system in all the procedures of the Company, the Audit Committee is established under the Board of the Directors. The Independent Director is appointed to the position of the Head of the Audit Committee, and the Audit Committee is composed of the professionals of Doctors, Masters, Certified Public Accountant. The Audit Department is established in the Company and directly led by the General manager who is in charge of Audit Committee which includes the professionals of certified public account, account, engineer and cost engineer.

(4) Establishment of the interior control system of the Company and the results

The Management Information Department of the Company organized and conducted the checking and improvement of the regulations of the Company according to the Guidelines of Interior Control System of the Listed Company, 56 regulations in the aspects of finance, quality, human resource, new product development, the Group's management & control, production & management etc. have been supplemented, drawn up and improved. By the checking and improvement of the Company's regulations, the Interior Control System of the Company is strengthened and improved in the main. The comprehending understood by the leaders in all level and employee for the interior control management has been improved continuously, laying the foundation of operation efficiency and countermeasures against the risk of business and operation.

(5) The important activities of the Interior Control of the Company

1. Management and control on the proprietary subsidiary company

In order to specify and standardize the relation to the proprietary subsidiary company, to enhance the support, guidance and management to the company and promote the proprietary subsidiary company to operate in accordance with the modern enterprise's regulations the Company manages the full-capital company under Changan and the proprietary subsidiary company in the way of that the function departments make the operation guidance, supervision and approval for the connected departments of the relevant proprietary subsidiary companies. For the management of the proprietary subsidiary company, the Company specifies the Four Basic Principles that is the controls of personnel, information, system and risk, establishing the Group Management & Control System participated by all the function departments on the platform of China-China Enterprise Management Office and the Joint Venture & Corporation Management Office. The Group Management & Control System related to all the function departments establishes and perfects the authorization system of the Group Management & Control System emphasizing on the personnel, finance, goods and materials and information. Meanwhile, the Company makes the detail specifications for the accreditation, duties and review of the Directors and Supervisors of the proprietary company, ensuring the exercise of the functions and powers for the Directors and Supervisors according to the laws and regulations. The company drew up the Regulations on Interior Report of Important Finance Information which specifies the range, content and the procedure of the report on the important finance information, effectively controlled the risk and ensured the truth and completeness of the information release. On the regulation management, it is specified by the Company that all the proprietary subsidiary companies must execute the Company's unified accounting policy in the unified manner and operate in accordance with the Company's general plan of running and operations. The Company unifies the management of the organizations, manning, staff employment, training, staff adjustment and appointment & removal ensuring the high degree of centralization on the operation management. For the risk management, the Company's Audit & Supervision

Department functioned as the main department for risk supervision and control, makes the routine and special auditing at regular or not regular intervals, ensuring the Company's policy of business and operation and all the regulations carried into execution and implementation, effectively taking countermeasures against the risk.

2.The Interior Control of the Company's Related Party Transaction

The Company drew up the Management of Related Party Transaction which makes the specifications in the aspects of the principles of the related party transaction, the related person and the related relation, related party transaction, the policy–decision process of the related party transaction, and the release of the related party transaction. The related party transaction occurred in the Company is carried out in accordance with the Management Regulations of Related Party Transaction.

3.The Interior Control of the Company's Information Release

The Company drew up and improved the Management Regulations of Information Release and the Regulations on Interior Report of Important Finance Information, completely and effectively controlling and managing the Company's opening information release and the interior communication of important finance information. The Company set up the interior transfer system of the important finance information, specified the range and content of important finance information, the relevant control process in terms of communication method, content and the time limit among all the Departments according to the Regulations on Interior Report of Important Finance Information. The principles, content, requirements and operating process of information release is specified by the Management Regulations of Information Release, standardizing the Company's operation and avoiding the omitted, false and misleading information.

(6)The problems and improved plan of the interior control of the Company

The following problem needs to be improved, though the Company has strengthened the interior control system and the establishment of interior control regulations and got the preliminary effects in accordance with the Articles of Association and the Guidelines for the Interior Control of Listed Company;

1. With the rapid development of the Company's major operation in the recent years and the new challenges on how to strengthen the overall management, it is the most important issue for the Company on how to ensure the management in line with the development of the business and operation, so as to guarantee the sustainable development of the Company.

For the problems mentioned above, the company has been continuously enhanced the interior control and the training of the directors, supervisors, senior managers and the employees, further improved the company's corporate governance and the standard operation according to Guidelines for the Interior Control of Listed Company.

2. The company has established the improved interior control system and the aspects of important matters have been effectively executed, But the implementation is not powerful enough in some respects, such as the inspection frequency on the supervision is not enough.

For the problems, the Company will further enhance the implementation and the force of the supervision and inspection to ensure all the regulations are effectively executed.

(7)Self-Evaluation of the Company's interior control

The current regulations of interior control have been established, improved basically and effectively carried out, fitting in with the requirements and needs of the Company's management and development, providing the guarantee of the true, generally recognized and authorized financial statement and the good running of all the Company's operations & business, the implementation of the laws and regulations of the State and the unit's interior regulations.

5.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 2007, 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 2,245 million.

VII. Shareholders' general meeting

1. The Board of Directors announced the First Session of the Temporary Shareholders' general meeting 2007 on June 5, 2007 through China Securities, Securities Daily and Hong Kong Business. The meeting was held on June 26, 2007 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, 2007.

2. The Board of Directors announced 2006 Shareholders' general meeting on April 12, 2007 through China Securities, Securities Daily and Hong Kong Business. The meeting was held on May 15, 2007 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 May 16, 2007.

3. The Board of Directors announced the Second Session of the Temporary Shareholders' general meeting 2007 on August 24, 2007 through China Securities, Securities Daily and Hong Kong Business. The meeting was held on September 21, 2007 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 September 22, 2007.

VIII. Report of the Board of Directors

1. Review for the business in the reporting period

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, Joice, Changan Suzuki's Alto mini sedans, Lingyang, Swift and Suzuki SX4, Changan Ford's Focus, Mondeo, Mazda 3, Mazda 2, SMAX and Volvo S40, Jiangling holding's Landwind multifunction vehicles and the manufacture and sales of various types of Jiangling brand engines.

In 2007, the Company totally produced 760,075 vehicles, a 25.17% increase from 2006. And a total number of 770,546 vehicles were sold, a 24.54% increase from 2006, among which 682,028 passenger-vehicle were sold, 88,518 commercial vehicle sold (Including: Changan headquarters, HebeiChangan, Nanking Changan, ChanganSUZUKI, Changan Ford Mazda and Jiangling holding, and neutralize unfulfilled sale backlog in Changan headquarters).

In the reporting period, Changan Ford Mazda was first won honour of the top ten automotive manufacture enterprises in China (ranked the ninth) by 213.1 thousand sale and 4.51% of market share, among that Focus was ranked the seventh in the Top Ten Sedan Brands of 2007 by 125 thousand sale, Changan Benben was ranked the ninth sale in the Independence-Development Sedan Brands 2007 (above analytical data from: China Automotive Industry New-Letter on automotive production and sale), which won a position at independent development sedan field. Changan Star II achieved a great deal of production and sale goal.

(1). Overall business operations

Item	2007	2006	Variable ratio (%)
Operating income	1,372,230	1,215,377	12.91%
Operating cost	1,161,946	1,027,748	13.06%
Operating profit	68,691	49,908	37.64%
Net profit	66,689	51,944	28.39%

Operating income and operating profit increases comparing to the same period of 2006, mainly due to the auto sales of Changan headquarters increased 6.03 ten thousand. Net profit and operating profit increases mainly due to the net profit of Changan Ford Mazda increased 6.10 a hundred million, resulting in the increase of the Company's investment earnings

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						
Line of business/product	Sales		Cost of sales		Gross margin rate (%)	
	Amount	Fluctuation from 2006	Amount	Fluctuation from 2006	Amount (%)	Fluctuation from 2006
Vehicle manufacturing	1,372,230.00	1,161,946.00	15.32%	12.91%	13.06%	-0.74%
Main business						
1.Passenger vehicle	953,091.00	846,800.00	11.15%	11.81%	15.06%	-18.33%

2.Commerical vehicle	216,792.00	165,891.00	23.48%	4.71%	-1.01%	23.21%
3.Other	202,347.00	149,255.00	26.24%	29.75%	20.21%	28.75%

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 2006
Domestic	1,311,325	12.27%
Foreign	60,905	28.59%

c. Major suppliers and clients

In 2007, gross purchase by the Company from the top five suppliers accounted for 206,460, 16.62% of total purchase of the year; and gross revenue from the top five clients accounted for 171,530, 12.50% of the total revenue of the Company.

(2) The following table illustrates significant changes of the Company's assets structure and analysis of causes
(in RMB Yuan)

Items	Dec.31,2007		Dec.31,2006		Fluctuation of total assets (%)
	Amount	Proportion in total assets (%)	Amount	Proportion in total assets (%)	
Receivable account	698,386,640	4.87%	486,109,473	3.36%	1.50%
Other receivables	150,730,003	1.05%	171,706,209	1.19%	0.22%
Inventory	1,794,682,010	12.50%	1,842,787,884	12.74%	-0.23%
Long-term equity investment	4,141,477,746	28.85%	3,879,886,686	26.83%	2.08%
Fixed assets	3,381,795,003	23.56%	3,662,726,670	25.33%	-1.77%
Construction in progress	260,899,240	1.82%	57,000,723	0.39%	1.42%
short-term loan	175,700,000	1.22%	158,500,000	1.10%	0.13%
Long-term loan			950,000,000	6.57%	-6.57%
	2007		2006		Fluctuation
Operating expenses	1,246,368,598		902,496,083		343,872,515
Management expenses	673,492,043		673,921,698		-429,655

Financial expenses	47,105,949	71,245,323	-24,139,374
Income tax	19,966,287	29,859,341	-9,893,054

The Proportion of receivable account had a slight increase, accompanying with increase of sale and credit line. Long-term equity investment had an increase due to the profits of Chang Ford Mazda. Fixed assets decreased mostly due to depreciation. The investment of construction in progress increased due to the increasing investment of associated works to enlarge production ability of Changan headquarters' complete vehicle. Long-term debt decreased due to refunding a long-term debt of 9.5 a hundred million Yuan. Sale increase, resulting in increasing of transportation cost, advertising costs as well as three subcontract service fee caused a rising selling cost. Financial expenses decreased mostly due to the interest expenditure decreased after repayment of loans. The adjustment of deferred income tax according to new accounting standards resulted in the change of income tax expense.

(3) Cash flow analysis

(in RMB Yuan)

Items	2007	2006	Fluctuation
Cash flow of business activities			
Cash inflow subtotal	11,695,584,940	10,584,219,987	1,111,364,953
Cash outflow subtotal	11,207,947,226	9,864,124,272	1,343,822,954
Net cash flow of business activities	487,637,714	720,095,715	-232,458,001
Cash flow of investment activities			
Cash inflow subtotal	754,953,554	525,987,440	228,966,114
Cash outflow subtotal	390,651,701	1,397,571,128	-1,006,919,427
Net cash flow of investment activities	364,301,853	-871,583,688	1,235,885,541
Cash flow of financing			
Cash inflow subtotal	1,717,609,795	1,170,203,000	547,406,795
Cash outflow subtotal	2,786,175,741	841,110,086	1,945,065,655
Net cash flow of financing	-1,068,565,947	329,092,914	-1,397,658,861

Net cash flow of business activities of 2.32 a hundred million Yuan, compared to the same period of 2006, caused by receiving bank acceptance bill in receipted payment of 2007. The cash inflow rising of investment activities mostly due to receiving the cash bonus of Changan Ford Mazda increased, cash outflow reduction mostly caused by increasing the investment of 10.15 a hundred million Yuan of Changan Ford Mazda's complete vehicle and engine. Net cash flow of financing decreased primarily due to refunding long-term debt of 9.5 a hundred million in 2007.

(4) Business operation information and achievement analyses of main holding companies and share companies

a. Basic information of main holding companies and share companies

(in RMB ten thousand Yuan)

Name	Registered capital	Equity held	Main businesses	Total assets	Main operating income	Net profit
Chongqing Changan Suzuki Automobile Co., Ltd	19,000 ten thousand dollar	51%	Production and sale of automobiles and parts	453,376	568,847	12,320
Changan Ford Mazda Motor Co., Ltd	28,263.9 ten thousand dollar	50%	Production and sale of automobiles and parts	1,348,374	2,873,366	191,737
Nanjing Changan Automobile Co., Ltd.	60,181 ten thousand Yuan	71.86%	Production and sale of automobiles and parts	95,592	81,969	-20,812
Hebei Changan Automobile Co., Ltd.	26,469 ten thousand Yuan	77.72%	Production and sale of automobiles and parts	120,351	393,659	1,448
Jiangling Holding Co., Ltd.	200,000 ten thousand Yuan	50%	Production and sale of automobiles and parts	306,518	95,436	9,820
Changan Ford Mazda Engine Co., Ltd	13,920 ten thousand dollar	50%	Production and sale of engine and parts	271,673	58,087	-29,862
Chongqing Changan Automobile Sale Subsidiary Company	3,490 ten thousand Yuan	80%-100%	Production and sale of automobiles and parts	28,018	601,494	-1,278
Chongqing Chang Automobile International Sale Service Co., Ltd	1,376 ten thousand Yuan	95%	Automobile export, agent of import and export	34,911	60,905	-380
Chongqing Chang	4,850 ten thousand Yuan	100%	Sale of automobiles and parts	5,922	8,789	71

Automobile Sale Co.,Ltd.	thousand Yuan					
Chongqing Changan Special Automobile Co., Ltd.	500 ten thousand Yuan	50%	Production and sale of special automobiles and parts	4,766	14,241	133
Chongqing Changan Automobile Service Co., Ltd.	3,000 ten thousand Yuan	99%	Sale of automobiles and parts	6,919	38,446	377
Chongqing Anfu Automobile Co., Ltd.	3,200 ten thousand Yuan	50%	Sale of automobiles and parts	20,166	91,858	1,279
Chongqing Changan Die Manufacture Co.,Ltd.	5,000 ten thousand Yuan	100%	Manufacture and sale for automobile die and jig	9,770	3,802	-11

(2) Subsidiaries or share companies, which operation results, compared to the same period of 2006, occurred greater fluctuation and had significant influence on the combination operation result of the Company

Basic information of main holding companies and share companies

(in RMB ten thousand Yuan)

Name	Net profit in 2007	Net profit in 2006	Variable ratio (%)
Chongqing Changan Suzuki Automobile Co., Ltd.	12,320	21,879	-43.69%
Changan Ford Mazda Motor Co., Ltd	191,737	130,721	46.68%
Changan Ford Mazda Engine Co., Ltd	-29,862	-30,717	-2.78%
Nanjing Changan Automobile Co., Ltd.	-22,419	-18,071	24.06%
Hebei Changan Automobile Co., Ltd.	1,449	4,799	-69.81%
Jiangxi Jiangling Holding Co., Ltd.	9,820	-2,619	-474.95%

The net profit of 2007, compared to the same period of 2006, was decreased greatly by a reduced 3900 vehicles sold by Changan SUZUKI, meanwhile, resulting in an increased fixed allocated expense by large-scale production and sale of M series engine not reached after putting into production and sales promotion by reduced price. The net profit of Changan Ford Mazda Company increased due to its greater sale. Changan Ford Mazda Engine was still in deficit at earlier stage of operating. Due to resulting in a rising fixed expenses by product dull sale, Nanking Changan lasted deficit. The profit of Hebei Changan shrank due to the adjustment of deferred income tax according to new accounting standards. The increase of Jiangling holding's net profit mostly depended on a profit growth of Jiangling Automobile.

2. Prospect for the further development

A. Prospect for the further development

First, vehicle market still remains rapid growth. In 2008, Chinese economy will still keep a faster growth trend and 15% around growth amplitude in vehicle market will maintain.

Secondly, more and more severe competition will appear, and continue to advance concentration. Profit from domestic medium-grade vehicle and below has reduced largely. Some of bad management enterprises will be reformed or withdrawn out of market.

Thirdly, independent brand will face with keen-competition. Along with the more internationalization of domestic market, increasing of a variety of domestic capital flooded into auto industry and continual increase invests from each enterprise, independent brand will be in the face of big challenge

Fourthly, new energy will face with new chance. Future developmental direction is new energy automobile. Implementing new energy auto production regulations will bring up more strict requirements for energy-saving and environmental protection of auto industry, and also give new energy automotive development a favourable chance.

B. Operating Plan for 2008

On the base of macroeconomic position, auto industry development status and the Company's actual conditions, in 2008, the Company will carry out "better and faster" guideline, stick on "Rapid Development Strategy", further implement the Company's Business Leading Plan, push forward the Company's "Two Actions and One Project" in a down-to-earth manner, push in internationalization process in an all-round way

and further emancipate the mind and change concept. Therefore, under the norms based on strategy, clients, competition stake, by insisting on "development, adjustment and reformation" guideline, taking customer requirements as guiding, brand as emphasis, research and development as core, production-manufacturing as foundation, supply chain and sale service as driving force, management, manpower and culture as support, the Company will push forward overseas strategy, endeavour to accelerate internationalization step, sell 890,000 vehicles annually with RMB 163 billion Yuan sales revenue (Production and sale data according to 100% statistics scope, including: Changan headquarters, Hebei Changan, Nanking Changan, Changan SUZUKI, Changan Ford Mazda and Jiangling holding).

C. Requirement for capital in 2008

For the operating and producing objective of 2007, it is estimated that liquidity in amount of 1.25 billion Yuan will be needed for running every month. Annual capital outlays of 2.99 billion Yuan will be needed, therein, fixed assets investment outlays is 1.99 billion, equity investment is 1 billion Yuan (including: an added investment of 5 billion Yuan for Jiangling Holding in February, 2008 and an added investment of 29 million dollar for Changan Ford Mazda in February, 2008). Part of these funds comes from it owned fund, share bonus of joint venture and cash receipt of sales, and part of which comes from loan of bank or finance company.

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

In 2008, the primary risks which the Company will meet include:

a. Policy risk: since state's macroscopic readjustment and control and tight monetary policy can result in weak consumed confidence and slow demand acceleration, sale pressure will increase.

b. Market risk: fluctuation of raw material and energy price as well as increment of labour cost result in rising of cost and reducing of profit in future.

c. Interest rate and exchange rate risk: continual RMB added interest and anticipated appreciation result in increment of financing cost and make abroad development face with big pressure and challenge.

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

a. Insist that guiding is based on clients, enhance market research, innovate sale mode and advance the ability of market development.

b. Future push in cost leading strategy. By taking product as core, process as main line, and low cost and high benefit as clue, the Company will enhance the cost control in product's research and development, production-manufacturing and sale service links.

c. Reduce impact of change in interest and exchange rate on the Company's business by using synthetically all kinds of financial means.

2 Investments of the Company in the reporting period

(1) Analysis of the Company's investment

Up to Dec.31, 2007, the long term investment of the company is 414,148 ten thousand, increased 26,159 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	Complete vehicle project	17,162	In progress	Included in the overall earnings of the Company
2	Engine project	2,518	In progress	
3	Technology Development Centre	6,281	In progress	
4	ERP project	405	In progress	
5	Industry Zone	5,595	In progress	
6	Others	2,086	In progress	
Total		34,047		

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. Thirty-one proposals were deliberated and passed. The conditions of holding meetings were as follows:

A. The fifth session of the Board of the Directors' third meeting was held on Jan. 4, 2007, and the following proposals were passed

through conference call:

- a. The proposal of investing 50 million for establishing Changan Die Manufacture Company
 - b. The proposal of accreditation of Hebei Changan and Nanjing Changan, which are Changan's major subsidiaries, entering the financial network agreement for auto sales
 - c. The proposal of assets retirement for the 2007
 - d. The proposal of preparing for offsetting long-term investment depreciation for the 2006
 - e. The proposal of holding the first temporary general meeting of share holders for the 2007
- B. The sixth session of the Board of the Directors' fourth meeting was held on April. 10, 2007, and the following proposals were passed:
- a. Report of the Board of the Directors for the year 2006
 - b. Report of the general manager for the year 2006
 - c. Annual financial report and the extract for the year 2006
 - d. Final financial settlement for the year 2006
 - e. Profit distribution scheme for the year 2006
 - f. The proposal of related party transaction for the year 2007
 - g. The proposal of "management system of disclosing information"
 - h. Notice of holding General Meeting for the year of 2006
- C. The seventh session of the Board of the Directors' fourth meeting was held on April.27, 2007, and the following proposals were passed through conference call:
- a. The financial report for the quarter one of year 2007
 - b. The proposal of change of accounting policy and accounting estimation
- D. The eighth session of the Board of the Directors' fourth meeting was held on June.29, 2007, and the proposal of the report on administering self-examination and the reforming plan was passed.
- E. The ninth session of the Board of the Directors' fourth meeting was held on August. 24, 2007, and the following proposals were passed:
- a. The semi-annual financial report and the extract for the year 2006
 - b. Reappointment of the auditor for the year 2006
 - c. The proposal of establishing audit committee
 - d. The proposal of amendment of "articles of association"
 - e. The proposal of deliberation of "related party transaction management system"

- f. The proposal of deliberation of "collecting fund management system"
- g. The proposal of deliberation of "internal control standard"
- h. The proposal of deliberation of "independent director duty"
- i. The proposal of deliberation of "shares held by director, supervisors and senior managements and change management system"
- j. The proposal of amendment of "general manager's job description"
- k. Notice of holding the second temporary general meeting of share holders for the 2007

F. The tenth session of the Board of the Directors' fourth meeting was held on October.30, 2007, and the following proposals were passed through conference call:

- a. The financial report for the third quarter of 2006
- b. The report on enhancing to reform the special activity administered by the Company

G. The eleventh session of the Board of the Directors' fourth meeting was held on November.23, 2007, and the proposal Of giving the Southwest Stock's interest held by the Company in exchange for the new increasing shares of Chongqing Changjiang Water Transportation Company was passed through conference call.

H. The twelfth session of the Board of the Directors' fourth meeting was held on December.21, 2007, and the proposal Of supplying loan for Chongqing Chang Automobile International Sale Service Co., Ltd, which is the company's subsidiary, was 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, 2007, the Company's Board of the Directors announced the dividend distribution in <China Security>, <Security Times> and <Hong Kong Business Express> on June 25, 2007 and execute the scheme accordingly.

B. 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 January 26, 2007, 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 Agriculture Bank, and thus promoted the sales of Hebei Changan and Nanjing Changan effectively.

(3) The audit committee

A. The work of the audit committee

There are 5 persons in the audit committee of director board, 3 persons of which are independent directors. The independent director having accounting profession is the chairman of the committee. Based on the related provision of China Securities Regulatory Commission and the executive regulations of the audit committee, the audit committee performed the following duty according to the assiduous and conscientious principle:

- a. The audit committee reviewed earnestly the annual audit plan and related documentation for the 2007, and discussed and determined the annual audit plan and requirements for the 2007 with the audit accountant in ERNST&YOUNG DA Ha CPA, in charge of the Changan Company's annual audit work.
- b. The audit committee reviewed earnestly the financial accounting statement for the 2007 compiled by the Company's managements and the review of related party transaction for the 2007 and the forecast of related party transaction for the 2008, agreed the forecast of related party transaction for the 2008 and the appointing outside auditor in 2008, and submitted them to the director board voting.
- c. The audit committee reviewed earnestly the financial statements provided an initial audit opinion by the certified accountant after annual audit, and exchanged views.
- d. After the annual auditing report for the 2007 provided by ERNST&YOUNG DA Ha CPA, the audit committee of director board held a meeting. At the meeting, the annual audit work undertaken by ERNST&YOUNG DA Ha CPA was summarized and the annual financial accounting statement and the proposal of appointing CPA Firm was voted through, and the resolution was formed.

B. The deliberating opinion, annual audit work report and related resolution of audit committee

- a. The annual financial accounting statement submitted by the Company

Decision: the audit committee agreed the annual financial accounting statement compiled by the Company managements, and decided to exchange views for the annual audit condition / result with ERNST&YOUNG DA Ha CPA.

- b. The review of related party transaction for the 2007 and the forecast of related party transaction for the 2008 submitted by the Company

Decision: the audit committee reviewed the review of related party transaction for the 2007 and the forecast of related party transaction for the 2008, and suggested that it should be submitted to director board to review and approve.

- c. The report on appointing outside auditor of the financial report for the 2008 submitted by the Company

Decision: the audit committee agreed that the concerned matters of appointing outside auditor for the 2008 would be submitted to the board director meeting held in August to discuss and make a decision.

4. The draft scheme for the profit distribution or transferring capital reserve into share capital of 2007

According to China Enterprise Accounting Standard and International Financial Report Standard, the draft scheme for distributable profit of the Company in 2007 as follows:

Unit: RMB Yuan

	China Enterprise Accounting Standard	International Financial Report Standard
Undistributed profit on 31 Dec., 2006	2,475,105,128	2,361,174,258
net profit of 2007	666,893,972	601,913,381
Surplus extracted	0	0
Distributed dividend of 2006	421,420,792	421,420,792
Undistributed profit on 31 Dec., 2007	2,720,578,308	2,541,666,847

According to the provision that the most distributed quota should be the lower value between China Enterprise Accounting Standard and International Financial Report Standard, undistributed profit available to be distributed on 31 Dec., 2007 is RMB 2,541,666,847 Yuan.

Because of the State fund retrench and financing cost increase caused by the tight monetary policy and the Company investment for new products and product line technological transformation project in 2008, the draft scheme for transferring capital reserve into share capital in stead of the profit distribution will be taken out in 2007. The proposal for transferring capital reserve into share capital of 2007 is: base on the total capital stock of 1,945,019,040 shares in Dec. 31, 2007, the bonus share is 2 shares per 10 shares, and then the total capital of the Company is increased to 2,334,022,848 shares.

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 four meetings of the Board of the Supervisors

(1) The fourth session of the Board of the Supervisors' fourth meeting was held on April 10, 2007 and the report of the Board of the Supervisors for the year 2006, the annual financial report and the extract for the year 2006, the final financial settlement for the year 2006, and proposal of the related party transaction of 2007 were discussed and passed.

(2) The fifth session of the Board of the Supervisors' fourth meeting was held on April 27, 2007 and the financial report of the first quarter was passed through conference call.

(3) The sixth session of the Board of Supervisors' fourth meeting was held on August 24, 2007 and the semi-annual financial report and the extract were discussed and passed.

(4) The seventh session of the Board of the Supervisors' fourth meeting was held on Oct.30, 2007 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, ERNST&YOUNG DA Ha CPA 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 and in the joint ventures.

(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 that 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 Company.

X. Important Matters

1. Major litigations and arbitrations of the year

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

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

There are no major acquisition and disposal of asset, and merger and acquisition during the year.

3. Share status held by the Company in other listed companies, unlisted financial firms and the companies planning to list

(1) In the end of the reporting period, the Company held 15.39% shares of Weaponry Equipment Group Accounting Ltd, with initial capital cost RMB80 million and book value RMB80 million.

(2) In the end of reporting period, the Company held 1.07% shares of South-western Securities Co., Ltd. (Hereafter referred to as "South-western Securities") with book value RMB22.988 million. 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.

At present Southwest Securities is planning to complete the listing of bond with shares increased by means of borrowing Chongqing Changjiang Water Transportation Co., Ltd. (referred to as Changjiang Water Transportation). The Company exchange the new shares of Changjiang Water Transportation with the shares of Southwest Securities held (total financial contribution RMB25 million and 1.07% in registered capital before the restructuring of Southwest Securities). 2,570,277,139 new shares of Changjiang Water Transportation are used to replace all shares of Southwest Securities, that is to say, stockholders of Southwest Securities can get 1.1 share of Changjiang Water Transportation for each RMB1 of Southwest Securities in return. Then after restructuring of Southwest Securities, the Company becomes the stockholder of Changjiang Water Transportation with 27,500,000 shares and 0.977% in general capital. The above proposal is passed in the first temporary shareholder's meeting of Southwest Securities of 2007 and will be put in the China Securities Supervisory Management Committee and related departments for approval.

(3) During the reporting period, there are no records to trade other listed companies' shares in the Company.

4. 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 RMB391.19million, which comprises 3.66% of the total transaction amount with same nature.

In the reporting period, the Company purchased automobile spare parts from Jianan, Lingjiang and Tsingshan of China South Industry Automobile Co., Ltd. at market price. The total transaction amount is RMB 780.65million,, which comprises 7.30% of the total amount of the same nature transaction.

In the reporting period, the Company sold automobile to Chengdu Wanyou Economic Technological Development Co., Ltd at market price. The total transaction amount is RMB603.11million, which comprises 4.40% of the total amount of the same nature transaction.

(2) Impact on the Company

Changan Jinling Vehicles Parts Co., Ltd and Jianan, Lingjiang, 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. are the dealers of automobile. Since all of them have established mass sales system which is favourable for the sales of the Company's product. The sale to such related parties is necessary and will go on in the future.

The above transaction 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.

5. 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. The Company rented the production and office buildings of Cuntan Distribution Centre of Changan Automobile Group Company, the area is 2803 square meters and monthly rental is RMB 35 per sq. m. The Company rented the Dashiba production and office buildings of Changan Automobile Group Company, the area is 4863 square meters and monthly rental is RMB 35 per sq. m. The Company rented the land of Cuntan of Changan Automobile Group Company, the area is 216005 square meters

and 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, Citic Bank and Agriculture 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 RMB80 million while Nanjing Changan can use RMB20 million. For Citic Bank, Hebei Changan can use RMB120 million while Nanjing Changan can use RMB80 million. For Agriculture Bank, Hebei Changan can use RMB340 million while Nanjing Changan can use RMB160 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 Hebei Changan used RMB186.92 million credit granting amount and drawn RMB464 million bank acceptance; the dealers of Nanjing Changan used RMB76.08 million credit granting amount and drawn RMB93 million bank acceptance. By the end of the reporting period, the unsettled acceptance of the Hebei Changan's dealers is RMB156.3755 million while that of Nanjing's dealers is RMB23.2045 million.

(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.

6. Commitment

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

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

(2) 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.

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

7. According to the decision of the second temporary shareholder's meeting in September 21, 2007, the Company appointed Anyong Dahua CPA Firm as the 2007 annual audit agency for the Company. At present the age limit of audit services supplied by the agency for the Company is 1 year with RMB3.5 million audit fee. In the reporting year, the Company hasn't paid for the audit agency. The former PricewaterhouseCoopers Zhongtian CPA has provided the audit service to the Company for six years.

8. 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.

9. Other important issues

(1) In the reporting period, the combination range of the Company is changed because of the new accounting standards in force as follows: Changan Suzuki is changed into no combination from the full combination, Jiangling Holding is changed into no combination from the full combination, and Changan Ford Mazda Automobile and Changan Ford Mazda Engine are changed into no combination from the proportion combination.

(2) According to the related provisions in Short-term Bonds Management Method, the Company issued one-year short-term bonds, amounting to RMB500,000,000 at 22 March 2007.

(3) 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 Exchange'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

Date	Location	manner	Reception object	Content discussed and material offered
Jan. 4, 2007	conference room of the Company	oral	New Century Fund Management Co.,Ltd	industry development and Company business situation and visit

Jan. 10, 2007	conference room of the Company	oral	UBS Securities	Industry development and Company business situation
Jan. 24, 2007	Hebei Changgan	oral	Jiacheng Asia	visit
Jan. 26, 2007	conference room of the Company	oral	China Merchants Securities	industry development and Company business situation and visit
Jan. 31, 2007	conference room of the Company	oral	Citic Securities, Bosera Fund	industry development and Company business situation
Feb. 2, 2007	conference room of the Company	oral	HillhouseCapitalManagement(Yale University QFII Manager)	industry development and Company business situation and visit
Feb. 9, 2007	conference room of the Company	oral	Shanghai Investment Morgan Fund Company	industry development and Company business situation
Feb. 12, 2007	conference room of the Company	oral	JP Morgan Chase & Co	industry development and Company business situation
Mar. 7, 2007	conference room of the Company	oral	Gaohua Securities Co.,Ltd. HongKong Prime Capital Managemen	industry development and Company business situation and visit
Mar. 8, 2007	conference room of the Company	oral	Guotai AMC Orient Securities Co.,Ltd	industry development and Company business situation
Mar. 9, 2007	conference room of the Company	oral	Hu An Fund Management Co.,Ltd	industry development and Company business situation
Mar. 14, 2007	conference room of the Company	oral	Dacheng Fund Management Co. Ltd	industry development and Company business situation
Mar. 15, 2007	conference room of the Company	oral	UBS Securities	industry development and Company business situation
Mar. 16, 2007	conference room of the Company	oral	Ping An Securities Company Ltd, Fortis Haitong Investment Management Co.Ltd.	industry development and Company business situation and visit
Mar. 20, 2007	conference room of the Company	oral	Guotai AMC、SYWG BNP PARIBAS ASSET MANGMENT	industry development and Company business situation
Mar. 21, 2007	conference room of the Company	oral	Morgan Stanley	industry development and Company business situation and visit
Mar. 22, 2007	conference room of the Company	oral	Lombarda China Fund Management Co.,Ltd. Chang Xin Asset Manegment, China	industry development and Company business situation

			Post&Capital Fund Management Co.,Ltd、 Industrial Securities Co.,Ltd、 Fortune SGAM Fund Management Co.,Ltd、	
Mar. 22, 2007	conference room of the Company	oral	Goldman Sachs	industry development and Company business situation and visit
Mar. 27, 2007	conference room of the Company	oral	CLSA LIMITED	industry development and Company business situation
Mar. 30, 2007	conference room of the Company	oral	China universal Asset Management Co.,Ltd	industry development and Company business situation
Apr. 3, 2007	conference room of the Company	oral	Waddell & Reed Investment Management Company	industry development and Company business situation and visit
Apr. 18, 2007	conference room of the Company	oral	UBS Securities	industry development and Company business situation and visit
Apr. 18, 2007	conference room of the Company	telephone	Huidong Capital Management Co.,Ltd	industry development and Company business situation
Apr. 19, 2007	conference room of the Company	oral	BNP PARIBAS PEREGRINE	industry development and Company business situation and visit
Apr. 24, 2007	conference room of the Company	telephone	UBS Securities	industry development and Company business situation
Apr. 25, 2007	conference room of the Company	oral	Merrill Lynch	industry development and Company business situation
Apr. 26, 2007	conference room of the Company	oral	Morgan Stanley	industry development and Company business situation and visit
May 15, 2007	conference room of the Company	oral	UBS Securities	industry development and Company business situation and visit
May 15, 2007	conference room of the Company	oral	Gaohua Securities Co.,Ltd、 Guosen Securities、 Fullgoal Fund Management Co.,Ltd、	industry development and Company business situation and visit
May 16, 2007	conference room of the Company	oral	China Re Asset Management Co.,Ltd、 China Southern Fund	industry development and Company business situation

			Management Co.,Ltd. CCB Principal Fund Management Co.,Ltd	and visit
May 22, 2007	conference room of the Company	oral	CLSA LIMITED	industry development and Company business situation and visit
May 29, 2007	conference room of the Company	oral	Boshi Fund Management Co.,Ltd	industry development and Company business situation and visit
May 30, 2007~Jun. 1, 2007	conference room of the Company	oral	Guojin Securities Company Ltd. Changsheng Fund Management Co.,Ltd. New Century Fund Management Co.,Ltd. Penghua Fund Management Co.,Ltd、 SYWG BNP PARIBAS ASSET MANGMENT、 Harvest Fund Management Co.,Ltd. Prime Capital Managmen. Ping An Securities Company Ltd	industry development and Company business situation and visit
Jun. 14, 2007	conference room of the Company	oral	East Asia Asset Management	industry development and Company business situation and visit
Jun. 28, 2007	conference room of the Company	oral	Industrial Securities	industry development and Company business situation and visit
Jul. 5, 2007	conference room of the Company	oral	JPMORGAN	industry development and Company business situation
Jul. 9, 2007	conference room of the Company	oral	Merrill Lynch	industry development and Company business situation
Jul. 11, 2007	conference room of the Company	oral	CICC	industry development and Company business situation
Jul. 13, 2007	conference room of the Company	oral	GUOJIN SECURITY	industry development and Company business situation and visit Changan Ford Co.
Jul. 16, 2007	conference room of the Company	telephone	CREDIT SUISSE	industry development and Company business situation

Jul. 17, 2007	conference room of the Company	oral	TongLian Capital	industry development and Company business situation and visit Changan Ford Co.
Jul. 24, 2007	conference room of the Company	oral	BOC International Limited	industry development and Company business situation and visit Changan Ford Co.
Jul. 25, 2007	conference room of the Company	oral	CLSA LIMITED	industry development and Company business situation
Jul. 30, 2007	conference room of the Company	oral	CITIGROUP	industry development and Company business situation
Aug. 14, 2007	conference room of the Company	oral	Merrill Lynch	industry development and Company business situation
Aug. 15, 2007	conference room of the Company	oral	United Securities	industry development and Company business situation
Aug. 30, 2007	conference room of the Company	oral	CITIGROUP	industry development and Company business situation
Sep. 5, 2007	conference room of the Company	oral	UBS	industry development and Company business situation
Sep. 13, 2007	conference room of the Company	oral	Neutsche Bank	industry development and Company business situation
Sep. 14, 2007	conference room of the Company	oral	China Merchants Fund	industry development and Company business situation
Sep. 21, 2007	conference room of the Company	oral	TianHong Fund	industry development and Company business situation
Sep. 28, 2007	conference room of the Company	oral	CLSA LIMITED	industry development and Company business situation and visit Changan Ford Co.
Oct. 8, 2007	conference room of the Company	oral	CLSA LIMITED	industry development and Company business situation
Oct. 15, 2007	conference room of the Company	telephone	QINHAN CAPITAL MANAGEMENT LTD	industry development and Company business situation
Oct. 31, 2007	conference room of the Company	oral	CLSA LIMITED	industry development and Company business situation
Nov. 8, 2007	conference room of the Company	oral	CHANGJIANG SECURITIES	industry development and Company business situation and visit
Nov. 15, 2007	conference room of the Company	oral	CLSA LIMITED	industry development and Company business situation and visit

Nov. 29, 2007	conference room of the Company	oral	INDUSTRIAL SECURITIES	industry development and Company business situation and visit
Dec. 24, 2007	conference room of the Company	oral	CPIC、GUOLIAN SECURITIES、CHANGJIANG SECURITIES	industry development and Company business situation and visit

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

Auditor's Report

Ernst & Young Da Hua Ye Zi 2008 No 317

To the shareholders of Listed Company Limited

We have audited the accompanying financial statements of Chongqing Changan Automobile Company Limited ("the Company") and its subsidiaries' ("the Group"), which comprise the consolidated and the company balance sheets as at 31 December 2007, and the consolidated and the company income statements, the consolidated and the company statements of changes in equity and the consolidated and the company cash flow statements for the year then ended and notes to the financial statements.

Management's Responsibility for the Financial Statements

The management is responsible for preparing financial statements in accordance with Accounting Standards for Business Enterprises. This responsibility includes (1) designing, implementing and maintaining the internal control relevant to the preparation of the financial statements that are free from material misstatement whether due to fraud or error; (2) selecting and applying appropriate accounting policies; and (3) making accounting estimates that are reasonable in the circumstances.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with the Chinese Auditing Standards issued by the Chinese Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain a reasonable assurance as to 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 judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, we consider the internal control relevant to the entity's preparation of 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. (the terms shall be used in circumstances other than when we are engaged to express an opinion on the effectiveness of the internal control based on our audit of the financial statements)] An audit also includes evaluating the appropriateness of the accounting policies used and the reasonableness of the 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 financial statements of the Company have been prepared in accordance with Accounting Standards for Business Enterprises, and present fairly, in all material aspects, the financial position of the Group and the Company as of 31 December 2007 and the results of the operations and the cash flows for the year then ended.

Ernst & Young Da Hua

Chinese Certified Public Accountant: Wang Yang

Chinese Certified Public Accountant: Wu Xiang

Shanghai, the People's Republic of China 24 March 2008

Chongqing Changan Automobile Company Limited
CONSOLIDATED BALANCE SHEET
31 December 2007
(Expressed in Renminbi Yuan)

ASSETS	Notes VI	2007	2006 (Restated)
Current assets:			
Cash	1	1,583,706,500.04	1,822,352,844.83
Notes receivable	2	1,596,620,506.83	2,031,021,202.00
Accounts receivable	3	698,386,639.62	486,109,473.03
Prepayments	4	370,607,759.19	262,575,437.00
Other receivables	5	150,730,002.93	171,706,208.62
Inventories	6	1,794,682,010.47	1,842,787,883.92
Other current assets	7	<u>308,325.00</u>	<u>4,632,699.00</u>
Total current assets		<u>6,195,041,744.08</u>	<u>6,621,185,748.40</u>
Non-current assets:			
Long-term equity investments	8	4,141,477,745.86	3,870,082,292.26
Fixed assets	9	3,381,795,003.04	3,662,726,670.00
Construction in progress	10	260,899,239.57	57,000,723.00
Project materials	11	6,279,679.78	4,161,526.00
Intangible assets	12	125,716,628.55	102,768,591.00
Development expenditure	13	100,710,739.51	-
Goodwill	14	9,804,394.00	9,804,394.00
Long-term deferred expenses	15	3,302,027.50	4,925,493.00
Deferred tax assets	16	<u>127,890,521.00</u>	<u>126,309,208.80</u>
Total non-current assets		<u>8,157,875,978.81</u>	<u>7,837,778,898.06</u>
TOTAL ASSETS		<u>14,352,917,722.89</u>	<u>14,458,964,646.46</u>

The notes on pages 19 to 141 form an integral part of these financial statements.

The financial statements on pages 3 to 20 have been approved by:

Legal representative:

Principal in Charge of Accountancy:

Chief Accountant:

Chongqing Changan Automobile Company Limited
CONSOLIDATED BALANCE SHEET (continued)
31 December 2007
(Expressed in Renminbi Yuan)

LIABILITIES AND OWNERS' EQUITY	<u>Notes VI</u>	<u>2007</u>	<u>2006</u> (Restated)
Current liabilities:			
Short-term loans	18	175,700,000.00	158,500,000.00
Short-term Bonds payable	19	513,680,000.00	512,060,000.00
Notes payable	20	1,389,450,000.00	1,724,580,000.00
Accounts payable	21	2,791,066,484.98	2,023,028,690.57
Advances receipts	22	749,440,570.96	453,270,452.00
Employee compensation payable	23	106,425,055.26	176,039,110.42
Taxes payable	24	50,762,719.76	107,082,078.00
Other payables	25	339,937,992.19	731,468,521.29
Contingent liabilities	26	205,137,407.04	241,366,233.00
Other current liabilities	27	<u>274,052,766.58</u>	<u>201,576,504.87</u>
Total current liabilities		<u>6,595,652,996.77</u>	<u>6,328,971,590.15</u>
Non-current liabilities:			
Long-term loans	28	-	950,000,000.00
Deferred income	29	31,232,786.52	20,190,000.50
Other non-current liabilities	30	<u>38,316,000.00</u>	<u>29,890,718.00</u>
Total non-current liabilities		<u>69,548,786.52</u>	<u>1,000,080,718.50</u>
Total liabilities		<u>6,665,201,783.29</u>	<u>7,329,052,308.65</u>
Owners' equity:			
Share capital	31	1,945,019,040.00	1,620,849,200.00
Capital reserves	32	1,889,189,593.17	1,858,277,824.00
Surplus reserves	33	1,018,281,747.50	1,018,281,747.50
Retained earnings	34	<u>2,720,578,307.73</u>	<u>2,475,105,128.07</u>
Interests belong to parent company		7,573,068,688.40	6,972,513,899.57
Minority interests	35	<u>114,647,251.20</u>	<u>157,398,438.24</u>
Total owners' equity		<u>7,687,715,939.60</u>	<u>7,129,912,337.81</u>
TOTAL LIABILITIES AND OWNERS' EQUITY		<u>14,352,917,722.89</u>	<u>14,458,964,646.46</u>

The notes on pages 19 to 141 form an integral part of these financial statements.

Chongqing Changan Automobile Company Limited
CONSOLIDATED INCOME STATEMENT
2007
(Expressed in Renminbi Yuan)

	<u>Notes VI</u>	<u>2007</u>	<u>2006</u> (Restated)
Operating revenue	36	13,722,299,142.67	12,153,773,037.66
Less: Operating cost	36	11,619,462,125.94	10,277,476,481.35
Business tax and surcharges	37	334,863,583.38	286,053,078.00
Operating expenses		1,246,368,598.38	902,496,083.00
General and administrative expenses		673,492,043.31	673,921,697.67
Financial expenses	38	47,105,949.12	71,245,323.00
Impairment loss on assets	39	46,276,338.76	6,391,334.21
Add: Investment income	40	932,183,208.53	562,888,801.67
Including: from associates		1,196,543.45	746,532.00
from joint venture		905,987,455.94	561,395,880.67
Operating profit		686,913,712.31	499,077,842.10
Add: Non-operating income	41	19,073,037.62	15,689,652.00
Less: Non-operating expenses	42	52,047,682.88	10,966,654.00
Including: loss on disposal of non-current assets		42,186,944.88	6,363,375.00
Total profit		653,939,067.05	503,800,840.10
Less: Income tax expense	43	19,966,287.46	29,859,341.29
Net profit		<u>633,972,779.59</u>	<u>473,941,498.81</u>
Net profit belong to parent company		<u>666,893,971.66</u>	<u>519,444,804.81</u>
Minority of profit and loss		<u>(32,921,192.07)</u>	<u>(45,503,306.00)</u>
Earnings per share			
Basic earnings per share	44	<u>0.34</u>	<u>0.27</u>

The notes on pages 19 to 141 form an integral part of these financial statements.

Chongqing Changan Automobile Company Limited
CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY
2007
(Expressed in Renminbi Yuan)

	2007						Total owners' equity
	Interests belong to parent company					Minority interests	
	Share capital	Capital reserves	Surplus reserves	Retained earnings	Subtotal		
Closing balance in 2006	1,620,849,200.00	2,069,083,424.00	1,729,939,091.00	1,886,907,629.00	7,306,779,344.00	1,694,956,851.00	9,001,736,195.00
Add: Carrying out new Accounting Standards for the first time	-	(210,805,600.00)	(711,657,343.50)	588,197,499.07	(334,265,444.43)	(1,537,558,412.76)	(1,871,823,857.19)
Opening balance in 2007	1,620,849,200.00	1,858,277,824.00	1,018,281,747.50	2,475,105,128.07	6,972,513,899.57	157,398,438.24	7,129,912,337.81
Changes during the year							
I Net profit	-	-	-	666,893,971.66	666,893,971.66	(32,921,192.07)	633,972,779.59
II Gain and loss directly put into equity							
1. Net change of the available-for-sale financial assets	-	-	-	-	-	-	-
2. Effect of changes of other owners' equities of investees under equity-method	-	-	-	-	-	-	-
3. The income tax influence of the item put into equity	-	-	-	-	-	-	-
4. Others	-	30,911,769.17	-	-	30,911,769.17	-	30,911,769.17
Subtotal of I and II	-	30,911,769.17	-	666,893,971.66	697,805,740.83	(32,921,192.07)	664,884,548.76
III Input by investors and decrease in capital							
1. Capital input by investors	-	-	-	-	-	-	324,169,840.00
2. Purchase of minority interests of subsidiaries	-	-	-	-	-	(4,329,994.97)	(4,329,994.97)
3. Others	-	-	-	-	-	-	-
IV Distribution of profits							
1. Pick-up of surplus reserves	-	-	-	-	-	-	-
2. Distribution to investors	324,169,840.00	-	-	(421,420,792.00)	(97,250,952.00)	-	(421,420,792.00)
3. Distribution to minority owners	-	-	-	-	-	(5,500,000.00)	(5,500,000.00)
Closing balance in 2007	<u>1,945,019,040.00</u>	<u>1,889,189,593.17</u>	<u>1,018,281,747.50</u>	<u>2,720,578,307.73</u>	<u>7,573,068,688.40</u>	<u>114,647,251.20</u>	<u>7,687,715,939.60</u>

The notes on pages 19 to 141 form an integral part of these financial statements.

Chongqing Changan Automobile Company Limited
CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY
2006
(Expressed in Renminbi Yuan)

	2006 (Restated)						Total owners' equity
	Interests belong to parent company						
	Share capital	Capital reserves	Surplus reserves	Retained earnings	Subtotal	Minority interests	
Closing balance in 2005	1,620,849,200.00	2,035,869,666.00	1,554,130,514.00	1,520,867,418.17	6,731,716,798.17	1,658,155,633.00	8,389,872,431.17
Add: Carrying out new Accounting Standards for the first time	-	(182,492,150.00)	(590,830,912.50)	587,026,003.09	(186,297,059.41)	(1,446,775,763.00)	(1,633,072,822.41)
Opening balance in 2006	1,620,849,200.00	1,853,377,516.00	963,299,601.50	2,107,893,421.26	6,545,419,738.76	211,379,870.00	6,756,799,608.76
Changes during the year							
I Net profit	-	-	-	519,444,804.81	519,444,804.81	(45,503,306.00)	473,941,498.81
II Gain and loss directly put into equity							
1. Net change of the available-for-sale financial assets	-	-	-	-	-	-	-
2. Effect of changes in other owners' equities of investees under equity-method	-	3,973,511.00	-	-	3,973,511.00	-	3,973,511.00
3. The income tax influence of the item put into equity	-	-	-	-	-	-	-
4. Others	-	926,797.00	-	-	926,797.00	-	926,797.00
Subtotal of I and II	-	4,900,308.00	-	519,444,804.81	524,345,112.81	(45,503,306.00)	478,841,806.81
III Input by investors and decrease in capital							
1. Capital input by investors	-	-	-	-	-	-	-
2. Purchase of minority interests of subsidiaries	-	-	-	-	-	(4,254,105.76)	(4,254,105.76)
3. Others	-	-	-	-	-	-	-
IV Distribution of profits							
1. Pick-up of surplus reserves	-	-	54,982,146.00	(54,982,146.00)	-	-	-
2. Distribution to investors	-	-	-	(97,250,952.00)	(97,250,952.00)	-	(97,250,952.00)
3. Distribution to minority owners	-	-	-	-	-	(4,224,020.00)	(4,224,020.00)
Closing balance in 2006	<u>1,620,849,200.00</u>	<u>1,858,277,824.00</u>	<u>1,018,281,747.50</u>	<u>2,475,105,128.07</u>	<u>6,972,513,899.57</u>	<u>157,398,438.24</u>	<u>7,129,912,337.81</u>

The notes on pages 19 to 141 form an integral part of these financial statements.

Chongqing Changan Automobile Company Limited
CONSOLIDATED CASH FLOW STATEMENT
2007
(Expressed in Renminbi Yuan)

	<u>Notes VI</u>	<u>2007</u>	<u>2006</u> (Restated)
CASH FLOWS FROM OPERATING ACTIVITIES:			
Cash received from sale of goods or rendering of services		11,490,690,590.52	10,407,779,663.61
Refunds of taxes		77,480,913.45	34,390,724.61
Cash received relating to other operating activities	45	<u>127,413,435.58</u>	<u>142,049,599.11</u>
Sub-total of cash inflows		<u>11,695,584,939.55</u>	<u>10,584,219,987.33</u>
Cash paid for goods and services		8,408,920,216.13	7,434,529,860.48
Cash paid to and on behalf of employees		663,094,643.89	574,421,291.80
Cash paid for all types of taxes		798,164,774.96	640,077,326.42
Cash paid relating to other operating activities	45	<u>1,337,767,590.59</u>	<u>1,215,095,793.41</u>
Sub-total of cash outflows		<u>11,207,947,225.57</u>	<u>9,864,124,272.11</u>
Net cash flows from operating activities	46	<u>487,637,713.98</u>	<u>720,095,715.22</u>

The notes on pages 19 to 141 form an integral part of these financial statements.

Chongqing Changan Automobile Company Limited
CONSOLIDATED CASH FLOW STATEMENT (continued)
2007
(Expressed in Renminbi Yuan)

	<u>Notes VI</u>	<u>2007</u>	<u>2006</u> <u>(Restated)</u>
CASH FLOWS FROM INVESTING ACTIVITIES:			
Cash received from sale of investments		199,153.40	6,551,767.00
Cash received from return on investments		687,743,951.26	423,873,616.72
Net cash received from disposal of fixed assets, intangible assets and other long-term assets		4,483,652.46	81,789,271.93
Cash received from sale of subsidiaries and other business units	48	62,501,302.00	-
Cash received relating to other investing activities		<u>25,495.24</u>	<u>13,772,784.00</u>
Sub-total of cash inflows		<u>754,953,554.36</u>	<u>525,987,439.65</u>
Cash paid for acquisition of fixed assets, intangible assets and other long-term assets		345,240,178.45	378,375,897.51
Cash paid for acquisition of subsidiaries and other business units		45,221,340.00	1,019,195,230.00
Cash paid relating to other investing activities		<u>190,183.00</u>	<u>-</u>
Sub-total of cash outflows		<u>390,651,701.45</u>	<u>1,397,571,127.51</u>
Net cash flows from investing activities		<u>364,301,852.91</u>	<u>(871,583,687.86)</u>

The notes on pages 19 to 141 form an integral part of these financial statements.

Chongqing Changan Automobile Company Limited
CONSOLIDATED CASH FLOW STATEMENT (continued)
2007
(Expressed in Renminbi Yuan)

	<u>Notes VI</u>	<u>2007</u>	<u>2006</u> (Restated)
CASH FLOWS FROM FINANCING ACTIVITIES:			
Cash received from borrowings		1,084,100,000.00	667,703,000.00
Cash received relating to other financing activities		<u>633,509,794.77</u>	<u>502,500,000.00</u>
Sub-total of cash inflows		<u>1,717,609,794.57</u>	<u>1,170,203,000.00</u>
Cash repayments of borrowings		2,016,900,000.00	525,000,000.00
Cash paid for distribution of dividends or profits and for interest expenses		157,785,913.61	182,273,578.11
Including: Subsidiaries paying the dividends to minority		5,500,000.00	4,224,020.00
Cash paid relating to other financing activities		<u>500,000,000.00</u>	<u>133,836,507.99</u>
Sub-total of cash outflows		<u>2,786,175,741.11</u>	<u>841,110,086.10</u>
Net cash flows from financing activities		<u>(1,068,565,946.54)</u>	<u>329,092,913.90</u>
EFFECT OF CHANGES IN EXCHANGE RATE ON CASH		-	-
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS		(216,626,379.65)	177,604,941.26
Add: Opening balance of cash and cash equivalents		<u>1,688,843,050.26</u>	<u>1,511,238,109.00</u>
CLOSING BALANCE OF CASH AND CASH EQUIVLANT	47	<u>1,472,216,670.61</u>	<u>1,688,843,050.26</u>

The notes on pages 19 to 141 form an integral part of these financial statements.

Chongqing Changan Automobile Company Limited
BALANCE SHEET
31 December 2007
(Expressed in Renminbi Yuan)

	<u>Notes VI</u>	<u>2007</u>	<u>2006</u> (Restated)
ASSETS			
Current assets:			
Cash	1	1,169,325,053.21	1,303,038,812.00
Notes receivable	2	1,244,832,731.87	1,839,025,708.00
Accounts receivable	3	1,279,366,970.68	1,378,964,843.00
Prepayments	4	320,766,687.31	179,323,325.00
Other receivables	5	217,737,210.27	114,392,262.00
Inventories	6	942,586,744.00	585,364,687.00
Other current assets		-	72,660.00
Total current assets		<u>5,174,615,397.34</u>	<u>5,400,182,297.00</u>
Non-current assets:			
Long-term equity investments	7	4,980,022,618.53	4,725,932,785.00
Fixed assets	8	2,841,453,390.86	3,144,885,852.00
Construction in progress	9	220,759,019.46	40,078,942.00
Project materials	10	6,279,679.78	4,285,122.00
Intangible assets	11	19,734,666.73	12,234,698.00
Development expenditure	12	100,710,739.51	-
Long-term deferred expenses	13	1,620,720.00	1,800,800.00
Deferred tax assets	14	98,789,178.14	111,004,108.00
Total non-current assets		<u>8,269,370,013.01</u>	<u>8,040,222,307.00</u>
TOTAL ASSETS		<u>13,443,985,410.35</u>	<u>13,440,404,604.00</u>

The notes on pages 19 to 141 form an integral part of these financial statements.

Chongqing Changan Automobile Company Limited
BALANCE SHEET (continued)
31 December 2007
(Expressed in Renminbi Yuan)

LIABILITIES AND OWNERS' EQUITY	<u>Notes VI</u>	<u>2007</u>	<u>2006</u> (Restated)
Current liabilities:			
Short-term Bonds payable	16	513,680,000.00	512,060,000.00
Notes payable	17	1,271,450,000.00	1,653,650,000.00
Accounts payable	18	1,982,380,836.96	1,427,225,036.00
Advances receipts	19	527,982,336.10	273,178,205.00
Employee compensation payable	20	82,331,521.17	143,597,782.56
Taxes payable	21	139,094,766.63	241,106,980.00
Other payables	22	229,086,101.28	263,341,242.44
Contingent liabilities	23	175,127,622.75	197,000,875.00
Other current liabilities	24	<u>207,502,072.76</u>	<u>203,458,722.00</u>
Total current liabilities		<u>5,128,635,257.65</u>	<u>4,914,618,843.00</u>
Non-current liabilities:			
Long-term loans	25	-	950,000,000.00
Deferred income	26	31,232,786.52	20,190,000.00
Other non-current liabilities	27	<u>25,628,000.00</u>	<u>29,890,718.00</u>
Total non-current liabilities		<u>56,860,786.52</u>	<u>1,000,080,718.00</u>
Total liabilities		<u>5,185,496,044.17</u>	<u>5,914,699,561.00</u>
Owners' equity:			
Share capital	28	1,945,019,040.00	1,620,849,200.00
Capital reserves	29	2,066,721,224.17	2,035,809,455.00
Surplus reserves	30	1,018,281,748.00	1,018,281,748.00
Retained earnings	31	<u>3,228,467,354.01</u>	<u>2,850,764,640.00</u>
Total owners' equity		<u>8,258,489,366.18</u>	<u>7,525,705,043.00</u>
TOTAL LIABILITIES AND OWNERS' EQUITY		<u>13,443,985,410.35</u>	<u>13,440,404,604.00</u>

The notes on pages 19 to 141 form an integral part of these financial statements.

Chongqing Changan Automobile Company Limited
INCOME STATEMENT
2007
(Expressed in Renminbi Yuan)

	<u>Notes VI</u>	<u>2007</u>	<u>2006</u> (Restated)
Operating revenue	32	9,075,021,521.62	7,508,213,335.34
Less: Operating cost	32	7,658,457,189.86	6,178,593,331.58
Business tax and surcharges	33	246,413,811.84	191,580,684.00
Operating expenses		703,462,762.37	534,262,655.00
General and administrative expenses		529,508,918.03	561,838,347.53
Financial expenses	34	(5,911,569.52)	24,220,665.00
Impairment loss on assets	35	46,404,219.67	6,413,154.35
Add: Investment income	36	914,029,531.80	571,220,493.88
Including: from subsidiaries		8,756,820.86	19,336,681.88
from associates of the Group		1,196,543.45	746,532.00
from joint venture		902,737,455.08	550,274,076.00
Operating profit		810,715,721.17	582,524,991.76
Add: Non-operating income	37	20,421,047.19	14,517,898.00
Less: Non-operating expenses	38	19,798,332.49	7,650,754.00
Including: loss on disposal of non-current assets		16,168,557.95	5,265,594.00
Total profit		811,338,435.87	589,392,135.76
Less: Income tax expense	39	12,214,929.86	(8,130,708.00)
Net profit		<u>799,123,506.01</u>	<u>597,522,843.76</u>
Earnings per share			
Basic earnings per share		<u>0.41</u>	<u>0.31</u>

The notes on pages 19 to 141 form an integral part of these financial statements.

Chongqing Changan Automobile Company Limited
STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY
2007
(Expressed in Renminbi Yuan)

	2007				
	Share capital	Capital reserves	Surplus reserves	Retained earnings	Total owners' equity
Closing balance in 2006	1,620,849,200.00	2,069,083,424.00	1,003,291,545.00	2,743,304,083.00	7,436,528,252.00
Add: Carrying out new Accounting Standards for the first time	-	(33,273,969.00)	14,990,203.00	107,460,557.00	89,176,791.00
Opening balance in 2007	1,620,849,200.00	2,035,809,455.00	1,018,281,748.00	2,850,764,640.00	7,525,705,043.00
Changes during the year					
I Net profit	-	-	-	799,123,506.01	799,123,506.01
II Gain and loss directly put into equity					
1. Net change of the available-for-sale financial assets	-	-	-	-	-
2. Effect of changes in other owners' equities of investees under equity-method	-	-	-	-	-
3. The income tax influence of the item put into equity	-	-	-	-	-
4. Others	-	30,911,769.17	-	-	30,911,769.17
Subtotal of I and II	-	30,911,769.17	-	799,123,506.01	830,035,275.18
III Input of investors and decrease of capital					
1. Capital input by investors	-	-	-	-	-
2. Others	-	-	-	-	-
IV Distribution of profits					
1. Pick-up of surplus reserves	-	-	-	-	-
2. Distribution to investors	324,169,840.00	-	-	(421,420,792.00)	(97,250,952.00)
Closing balance in 2007	<u>1,945,019,040.00</u>	<u>2,066,721,224.17</u>	<u>1,018,281,748.00</u>	<u>3,228,467,354.01</u>	<u>8,258,489,366.18</u>

The notes on pages 19 to 141 form an integral part of these financial statements.

Chongqing Changan Automobile Company Limited
STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY
2006
(Expressed in Renminbi Yuan)

	2006 (Restated)				
	Share capital	Capital reserves	Surplus reserves	Retained earnings	Total owners' equity
Closing balance in 2005	1,620,849,200.00	2,035,869,666.00	946,570,186.00	2,330,062,804.24	6,933,351,856.24
Add: Carrying out new Accounting Standards for the first time	-	(4,220,910.00)	16,729,416.00	75,412,090.00	87,920,596.00
Opening balance in 2006	1,620,849,200.00	2,031,648,756.00	963,299,602.00	2,405,474,894.24	7,021,272,452.24
Changes during the year					
I Net profit	-	-	-	597,522,843.76	597,522,843.76
II Gain and loss directly put into equity					
1. Net change of the available-for-sale financial assets	-	-	-	-	-
2. Effect of changes in other owners' equities of investees under equity-method	-	3,233,902.00	-	-	3,233,902.00
3. The income tax influence of the item put into equity	-	-	-	-	-
4. Others	-	926,797.00	-	-	926,797.00
Subtotal of I and II	-	4,160,699.00	-	597,522,843.76	601,683,542.76
III Distribution of profits					
1. Pick-up of surplus reserves	-	-	54,982,146.00	(54,982,146.00)	-
2. Distribution to investors	-	-	-	(97,250,952.00)	(97,250,952.00)
Closing balance in 2006	<u>1,620,849,200.00</u>	<u>2,035,809,455.00</u>	<u>1,018,281,748.00</u>	<u>2,850,764,640.00</u>	<u>7,525,705,043.00</u>

The notes on pages 19 to 141 form an integral part of these financial statements.

Chongqing Changan Automobile Company Limited
CASH FLOW STATEMENT
2007
(Expressed in Renminbi Yuan)

	<u>Notes VI</u>	<u>2007</u>	<u>2006</u> (Restated)
CASH FLOWS FROM OPERATING ACTIVITIES:			
Cash received from sale of goods or rendering of services		8,531,769,942.50	6,691,656,964.00
Refunds of taxes		5,302,000.00	-
Cash received relating to other operating activities	40	<u>116,910,366.90</u>	<u>85,234,272.00</u>
Sub-total of cash inflows		<u>8,653,982,309.40</u>	<u>6,776,891,236.00</u>
Cash paid for goods and services		5,714,798,535.83	4,770,796,284.00
Cash paid to and on behalf of employees		550,223,845.68	484,353,354.68
Cash paid for all types of taxes		609,997,617.83	383,156,970.00
Cash paid relating to other operating activities	40	<u>1,238,969,378.74</u>	<u>692,609,895.32</u>
Sub-total of cash outflows		<u>8,113,989,378.08</u>	<u>6,330,916,504.00</u>
Net cash flows from operating activities	41	<u>539,992,931.32</u>	<u>445,974,732.00</u>

The notes on pages 19 to 141 form an integral part of these financial statements.

Chongqing Changan Automobile Company Limited
CASH FLOW STATEMENT (continued)
2007
(Expressed in Renminbi Yuan)

	<u>Notes VI</u>	<u>2007</u>	<u>2006</u> (Restated)
CASH FLOWS FROM INVESTING ACTIVITIES:			
Cash received from sale of investments		62,700,455.40	6,551,767.00
Cash received from return on investments		692,756,819.92	438,349,347.00
Net cash received from disposal of fixed assets, intangible assets and other long-term assets		1,319,738.29	75,999,768.00
Cash received relating to other investing activities		<u>-</u>	<u>13,772,784.00</u>
Sub-total of cash inflows		<u>756,777,013.61</u>	<u>534,673,666.00</u>
Cash paid for acquisition of fixed assets, intangible assets and other long-term assets		276,933,924.35	293,072,216.00
Cash paid for acquisition of subsidiaries and other business units		60,221,340.00	1,019,195,230.00
Cash paid relating to other investing activities		<u>190,183.00</u>	<u>-</u>
Sub-total of cash outflows		<u>337,345,447.35</u>	<u>1,312,267,446.00</u>
Net cash flows from investing activities		<u>419,431,566.26</u>	<u>(777,593,780.00)</u>

The notes on pages 19 to 141 form an integral part of these financial statements.

Chongqing Changan Automobile Company Limited
CASH FLOW STATEMENT (continued)
2007
(Expressed in Renminbi Yuan)

	<u>Notes VI</u>	<u>2007</u>	<u>2006</u> (Restated)
CASH FLOWS FROM FINANCING ACTIVITIES:			
Cash received from borrowings		550,000,000.00	107,100,000.00
Cash received relating to other financing activities		<u>595,000,000.00</u>	<u>498,340,000.00</u>
Sub-total of cash inflows		<u>1,145,000,000.00</u>	<u>605,440,000.00</u>
Cash repayments of borrowings		1,500,000,000.00	-
Cash paid for distribution of dividends or profits and for interest expenses		143,138,256.37	163,567,241.00
Cash paid relating to other financing activities		<u>500,000,000.00</u>	<u>95,000,000.00</u>
Sub-total of cash outflows		<u>2,143,138,256.37</u>	<u>258,567,241.00</u>
Net cash flows from financing activities		<u>(998,138,256.37)</u>	<u>346,872,759.00</u>
EFFECT OF CHANGES IN EXCHANGE RATE ON CASH		-	-
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS		(38,713,758.79)	15,253,711.00
Add: Opening balance of cash and cash equivalents		<u>1,208,038,812.00</u>	<u>1,192,785,101.00</u>
CLOSING BALANCE OF CASH AND CASH EQUIVLANT	42	<u>1,169,325,053.21</u>	<u>1,208,038,812.00</u>

The notes on pages 19 to 141 form an integral part of these financial statements.

Chongqing Changan Automobile Company Limited
Notes to Financial Statement
2007
(Expressed in Renminbi Yuan)

I. Corporate 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 has its primary listing on the Shenzhen Stock Exchange (for both “A” and “B” shares).

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.

II. Representation regarding the preparation basis and compliance with the Accounting Standards for Business Enterprises

The financial statements have been prepared, in accordance with the Accounting Standards for Business Enterprises (including basic standards, specific standards, implementation guidance and other relevant provisions; the same below) promulgated by the MOF in 2006.

According to the Notice of the Ministry of Finance on Publishing the “Accounting Standard for Business Enterprises No. 1- Inventory” and other 37 Specific Standards (Cai Kuai [2006] No. 3), the Company applied the Accounting Standards for Business Enterprises promulgated by the Ministry of Finance in 2006 commencing from 1 January 2007.

Financial statements for the comparable years have been restated according to the requirements of the Accounting Standards for Business Enterprises.

Chongqing Changan Automobile Company Limited
Notes to Financial Statement (continued)
2007
(Expressed in Renminbi Yuan)

II. Representation regarding the preparation basis and compliance with the Accounting Standards for Business Enterprises (continued)

The Company listed on the Stock Exchange of Shen Zhen Limited on 8 Nov 1996, and provides financial reports to external parties in accordance with the International Financial Reporting Standards (IFRS). According to the Accounting Standards for Business Enterprises No. 1 issued by the MOF in November 2007, the Company has made retrospective adjustments to the transactions and issues relating to the changes in accounting policies, based on the relevant information obtained; it has also consistently adopted the accounting policies listed in Note 3 below, during all the accounting periods covered by the financial statements.

The financial statements of the Company have been prepared in accordance with the Accounting Standards for Business Enterprises, and present fairly and completely, the financial position of the Company and the Group as of 31 December 2007 and the results of the operations and the cash flows for the year then ended.

The financial statements are presented on a going concern basis.

III. Significant accounting policies and estimates

The financial statements of the Company and its subsidiaries (collectively “the Group”) for the year ended 31 December 2007, are prepared based on the following significant accounting policies and estimates set out by the Accounting Standards for Business Enterprises.

1. Accounting year

The accounting year of the Group is from 1 January to 31 December of each calendar year.

2. Functional currency

The Group’s functional and reporting currency is the Renminbi (“RMB”). Unless otherwise stated, the unit of the currency is Yuan.

3. Basis of accounting and measurement basis

The Group maintains its accounting records on an accrual basis. Except for certain financial instruments, assets are recorded at actual cost when they are acquired. Subsequently, if the assets are impaired, the corresponding provisions should be made accordingly. The assets invested during the restructuring of the Company, should be recorded at the appraisal price determined by the National Assets Management Department.

Chongqing Changan Automobile Company Limited
Notes to Financial Statement (continued)
2007
(Expressed in Renminbi Yuan)

III. Significant accounting policies and estimates (continued)

4. Business combinations

A business combination is a transaction or event that brings together two or more separate entities into one reporting entity. Business combinations are classified into business combinations involving entities under common control and business combinations involving entities not under common control.

Business combination involving entities under common control

A business combination involving entities under common control is a business combination in which all of the combining entities are ultimately controlled by the same party or parties both before and after the combination, and that control is not transitory. For a business combination involving entities under common control, the party that, on the combination date, obtains control of another entity participating in the combination is the acquiring party, while that other entity participating in the combination is a party being acquired. Combination date is the date on which the acquiring party effectively obtains control of the party being acquired.

Assets and liabilities that are obtained by the acquiring party in a business combination shall be measured at their carrying amounts at the combination date as recorded by the party being acquired. The difference between the carrying amount of the net assets obtained and the carrying amount of the consideration paid for the combination (or the aggregate face value of shares issued as consideration) shall be adjusted to capital reserve. If the capital reserve is not sufficient to absorb the difference, any excess shall be adjusted against retained earnings.

The cost of a combination incurred by the acquiring party includes any costs directly attributable to the combination, which shall be expensed when incurred.

Business combination involving entities not under common control

A business combination involving entities not under common control is a business combination in which all of the combining entities are not ultimately controlled by the same party or parties both before and after the combination. For a business combination involving entities not under common control, the party that, on the acquisition date, obtains control of another entity participating in the combination is the acquirer, while that other entity participating in the combination is the acquiree. Acquisition date is the date on which the acquirer effectively obtains control of the acquiree.

Chongqing Changan Automobile Company Limited
Notes to Financial Statement (continued)
2007
(Expressed in Renminbi Yuan)

III. Significant accounting policies and estimates (continued)

4. Business combinations (continued)

Business combination involving entities not under common control(continued)

For a business combination that involves one single exchange transaction, the cost of combination is the aggregate of the fair values, at the acquisition date, of the assets given, liabilities incurred or assumed, and equity securities issued by the acquirer, in exchange for control of the acquiree. For a business combination achieved in stages that involves multiple exchange transactions, the cost of combination is the aggregate of the costs of individual transactions. When a business combination contract provides for an adjustment to the cost of combination contingent on a future event, the acquirer shall include the amount of that adjustment in the cost of the combination if it is expected on the acquisition date that the occurrence of the future event is probable and the amount affecting the cost of combination can be measured reliably.

The acquirer shall measure the acquiree's identifiable assets, liabilities and contingent liabilities acquired in the business combination at their fair values on the acquisition date.

Where the cost of a business combination exceeds the acquirer's interest in the fair value of the acquiree's identifiable net assets, the difference shall be recognized as goodwill. Where the cost of combination is less than the acquirer's interest in the fair value of the acquiree's identifiable net assets, the difference shall be accounted for according to the following requirements: (i) the acquirer shall reassess the measurement of the fair values of the acquiree's identifiable assets, liabilities and contingent liabilities and measurement of the cost of combination; (ii) if after that reassessment, the cost of combination is still less than the acquirer's interest in the fair values of the acquiree's identifiable net assets, the acquirer shall recognize the remaining difference immediately in the income statement for the current period.

5. Consolidated financial statements

The scope of consolidation of consolidated financial statements is determined based on control, and includes the financial statements of the Company and its subsidiaries for the year ended 31 December 2007. A subsidiary is an entity that is controlled by the Group.

Consolidated financial statements are prepared using uniform reporting dates and accounting policies. All significant intercompany transactions and balances within the Group are eliminated on consolidation.

For any subsidiary consolidated by the Group, the portion of the profit or loss and net assets of such a subsidiary attributable to equity interests that are not owned, directly or indirectly by the Group is separately presented as minority interest in the consolidated financial statements.

Chongqing Changan Automobile Company Limited
Notes to Financial Statement (continued)
2007
(Expressed in Renminbi Yuan)

III. Significant accounting policies and estimates (continued)

5. Consolidated financial statements (continued)

With respect to subsidiaries acquired through business combinations involving entities not under common control, the operating results and cash flows of the acquiree should be included in the consolidated financial statements, from the day that the Group gains control, till the Group ceases the control of it. While preparing the consolidated financial statements, the acquirer should adjust the subsidiary's financial statements, on the basis of the fair values of the identifiable assets, liabilities and contingent liabilities recognized on the acquisition date.

With respect to subsidiaries acquired through business combinations involving entities under common control, the operating results and cash flows of the acquiree should be included in the consolidated financial statements from the beginning of the period in which the combination occurs.

6. Cash equivalents

Cash equivalents represent short-term, highly liquid investments which are readily convertible into known amounts of cash, and which are subject to an insignificant risk of changes in value.

7. Foreign currency translation

The amount of foreign currency transactions occurred in the reporting year is translated into functional currency.

The foreign currency transactions are recorded, on initial recognition in the functional currency, by applying to the foreign currency amount at the spot exchange rate as at the transaction dates. Foreign currency monetary items are translated using the spot exchange rate quoted by the People's Bank of China at the balance sheet date. The exchange gains or losses arising from occurrence of transactions and exchange of currencies, except for those relating to foreign currency borrowings specifically for construction and acquisition of fixed assets capitalized, are dealt with in the profit and loss accounts. Non-monetary foreign currency items measured at historical cost remain to be translated at the spot exchange rate prevailing on the transaction date, and the amount denominated in the functional currency should not be changed. Non-monetary foreign currency items measured at fair value should be translated at the spot exchange rate prevailing on the date when the fair values are determined. The exchange difference thus resulted should be charged to the current income or capital surplus account of the current period.

Chongqing Changan Automobile Company Limited
Notes to Financial Statement (continued)
2007
(Expressed in Renminbi Yuan)

III. Significant accounting policies and estimates (continued)

7. Foreign currency translation (continued)

When preparing consolidated financial statements, the financial statements of the subsidiaries presented in foreign currencies are translated into Renminbi as follows: asset and liability accounts are translated into Renminbi at exchange rates ruling at the balance sheet date; shareholders' equity accounts other than retained profits are translated into Renminbi at the applicable exchange rates ruling at the transaction dates; items in income statement other than profit appropriation statement are translated into Renminbi at spot exchange rates on transaction occurrence; total difference between translated assets and translated liabilities and shareholders' equity is separately listed as "foreign currency exchange differences" below retained profits. The translation difference arising from the settlement of oversea subsidiaries is charged to the current liquidation profit and loss in proportion to the settlement ratio of the assets concerned.

Foreign currency cash flows and the cash flows of foreign subsidiaries should be translated using the average exchange rate prevailing on the transaction month during which the cash flows occur. The amount of the effect on the cash arising from the change in the exchange rate should be separately presented as an adjustment item in the cash flow statement.

8. Inventory

Inventory includes raw materials, goods in transit, work in progress, finished goods, consigned processing materials, packaging materials and low-value consumables.

Inventories are assets (a) held for sales in the ordinary course of business (b) in the process of production for such sale (c) in the form of materials or supplies to be consumed in the production process or in the rendering of services.

Inventory is initially carried at the actual cost. Inventory costs comprise all costs of purchase, costs of conversion and other costs incurred in bringing the inventory to its present location and condition.

Weighted average method is assigned to the determination of actual costs of inventories.

The Group applies a perpetual inventory system.

One-off writing off method is adopted in amortization of packaging materials and low-value consumables.

Chongqing Changan Automobile Company Limited
Notes to Financial Statement (continued)
2007
(Expressed in Renminbi Yuan)

III. Significant accounting policies and estimates (continued)

8. Inventory (continued)

At the balance sheet date, the inventory is stated at the lower of cost and net realizable value. If the cost is higher than the net realizable value, provision for the inventory should be made through profit or loss. If factors that resulted in the provision for the inventory have disappeared and made the net realizable value higher than their book value, the amount of the write-down should be reversed, to the extent of the amount of the provision for the inventory, and the reversed amount should be recognized in the income statement for the current period.

Net realizable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale. The impairment provision should be made on a basis of each item of finished goods according to the difference between cost and net realizable value. For large numbers of inventories at relatively low unit prices, the provision for loss on decline in value of inventories should be made by category.

9. Long-term equity investments

Long-term equity investments include investments in subsidiaries, joint ventures and associates. The long-term investments are initially recorded at cost on acquisition. It is accounted for using either the cost method or the equity method as appropriate under the following circumstances.

Cost method is applied to account for long-term equity investments, when the Group has control of the investee enterprise, or does not have jointly control or significant influence on the investee enterprise, the fair value of which cannot be reliably measured due to the fact they are not quoted in an active market.

Under cost method, the long-term equity investment is valued at the cost of the initial investment. Profit or cash dividends declared by the invested enterprise are recognized as investment income for the current period. The amount of investment income recognized is limited to the amount distributed out of accumulated net profit of the invested enterprise that arises after the investment is made. The amount of profit or cash dividends declared by the invested enterprise in excess of the above threshold is treated as return on investment cost, and netted against the carrying amount of investments.

The equity method is applied to account for long-term equity investments, when the Group has jointly control, or significant influence on the investee companies.

Chongqing Changan Automobile Company Limited
Notes to Financial Statement (continued)
2007
(Expressed in Renminbi Yuan)

III. Significant accounting policies and estimates (continued)

9. Long-term equity investments (continued)

Under equity method, when the initial investment cost of a long-term equity investment exceeds the investing enterprise's interest in the fair values of the investee's identifiable net assets at the acquisition date, the difference between them is accounted for as an initial cost. As to the initial investment cost is less than the investing enterprise's interest in the fair values of the investee's identifiable net assets at the acquisition date, the difference shall be charged to the income statement for the current period, and the cost of the long-term equity investment shall be adjusted accordingly.

Under equity method, the Group recognizes its share of post-acquisition equity in the investee enterprise for the current period as a gain or loss on investment, and also increases or decreases the carrying amount of the investment. When recognizing its share in the net profit or loss of the investee entities, the Group should, based on the fair values of the identifiable assets of the investee entity when the investment is acquired, in accordance with the Group's accounting policies and periods, after eliminating the portion of the profits or losses, arising from internal transactions with joint ventures and associates, attributable to the investing entity according to the share ratio (but losses arising from internal transactions that belong to losses on the impairment of assets, should be recognized in full), recognize the net profit of the investee entity after making appropriate adjustments. The book value of the investment is reduced to the extent that the Group's share of the profit or cash dividend declared to be distributed by the investee enterprise.

However, the share of net loss is only recognized to the extent that the book value of the investment is reduced to zero, except to the extent that the Group has incurred obligations to assume additional losses. The Group shall adjust the carrying amount of the long-term equity investment for other changes in owners' equity of the investee enterprise (other than net profits or losses), and include the corresponding adjustments in equity, which should be realized through profit or loss in subsequent settlement of the respective long-term investment.

On settlement of a long-term equity investment, the difference between the proceeds actually received and the carrying amount shall be recognized in the income statement for the current period.

10. Fixed assets

Fixed assets are tangible assets held by: (a) for use in production or supply of goods or services, for rental to others or for administrative purposes; (b) have useful life of more than one year.

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III. Significant accounting policies and estimates (continued)

10. Fixed assets (continued)

A fixed asset shall be recognized only when the economic benefits associated with the asset will flow to the Group and the cost of the asset can be measured reliably. Subsequent expenditure incurred for a fixed asset that meet the recognition criterial shall be included in the cost of the fixed asset, and the book value of the component of the fixed asset that is replaced shall be derecognized. Otherwise, such expenditure shall be recognized in the income statement in the period in which they are incurred.

Fixed assets are initially measured at actual cost on acquisition. The cost of a purchased fixed asset comprises the purchase price, relevant taxes and any directly attributable expenditure for bringing the asset to working condition for its intended use, such as delivery and handling costs, installation costs and other surcharges.

Fixed assets are depreciated on straight-line basis. The estimated useful lives, estimated residual values and annual depreciation rates for each category of fixed assets are as follows:

	Estimated useful life	Estimated residual rate	Annual depreciation rate
Buildings	20~40 years	3%	2.43%~4.85%
Machinery	10~20 years	3%	4.85%~9.7%
Vehicles	5~8 years	3%	12.13%~19.4%
Others	5 years	3%	19.4%

Note: the mould tools in machinery should be depreciated in proportionate to the estimated production.

Where the individual component parts of an item of fixed asset have different useful lives or provide benefits to the enterprise in different patterns, different depreciation rates and methods should be applied.

The Group reviews the useful life and estimated net residual value of a fixed asset and the depreciation method applied at least at the end of each year and makes adjustments if necessary.

11. Construction in progress

The cost of construction in progress is determined according to the actual expenditure for the construction, including all necessary construction expenditure incurred during the construction period, borrowing costs that should be capitalized before the construction reaches the condition for intended use and other relevant expenses.

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III. Significant accounting policies and estimates (continued)

11. Construction in progress (continued)

Construction in progress is transferred to fixed assets when the asset is ready for its intended use.

12. Intangible assets

Intangible assets of the Group are recorded at actual cost on acquisition.

The useful life of the intangible assets shall be assessed according to the estimated beneficial period expected to generate economic benefits. An intangible asset shall be regarded as having an indefinite useful life when there is no foreseeable limit to the period over which the asset is expected to generate economic benefits for the Group.

The useful lives of the intangible assets are as follow:

	Useful life
Land use right	25~61 years
Software	2 years
Trademark	5 years

Land use rights that are purchased or acquired through the payment of land use fees are accounted for as intangible assets. With respect to Self-developed properties, the corresponding land use right and buildings should be recorded as intangible and fixed assets separately. As to the purchased properties, if encountered the reasonable allocation of outlays between land and buildings, all assets purchased will be recorded as fixed assets.

The cost of a finite useful life intangible asset is amortized using the straight-line method during the estimated useful life. For an intangible asset with a finite useful life, the Group reviews the estimated useful life and amortization method at least at the end of each year and adjusts if necessary.

13. Research and development expenditures

The Group classified the internal research and development expenditures as follows: research expenditures and development cost.

The expenditures in research stage are charged to the current income on occurrence.

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III. Significant accounting policies and estimates (continued)

13. Research and development expenditures (continued)

The expenditures in development stage are capitalized that meet all the conditions of (a) it is feasible technically to finish intangible assets for use or sale; (b) it is intended to finish and use or sell the intangible assets; (c) the usefulness of methods for intangible assets to generate economic benefits shall be proved, including being able to prove that there is a potential market for the products manufactured by applying the intangible assets or there is a potential market for the intangible assets itself or the intangible assets will be used internally; (d) it is able to finish the development of the intangible assets, and able to use or sell the intangible assets, with the support of sufficient technologies, financial resources and other resources; and The development expenditures of the intangible assets can be reliably measured. Expenses incurred that don't meet the above requirements unanimously should be expensed in the income statement of the reporting period.

The Company discriminates between research and development stage with the condition that the project research comes into project-determination stage ,in which the relevant research complete all the fractionization of products measurements and final product scheme under final approval of management. The expenditures incurred in and before project-determination stage is charged to the current income, otherwise it is recorded as development cost.

14. Financial instruments

A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity.

Recognition and derecognition

The Group recognizes a financial asset or a financial liability on its balance sheet, when the Group becomes a party to the contractual provision of the instrument.

The Group derecognizes a financial asset when:

- 1) The contractual rights to the cash flows from the financial asset expire; or
- 2) It transfers the financial asset and the transfer qualifies for derecognition as set out below.

If the obligation relating to a financial liability has been discharged or cancelled or has expired, the financial liability is derecognized. If the existing financial liability is replaced by the same creditor, with another financial liability that has terms with an almost completely different nature, or if almost all the terms of the existing liability are substantially revised, such replacement or revision is accounted for as the derecognition of the original liability and the recognition of a new liability, and the difference thus resulted is recognized in the income statement of the current period.

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III. Significant accounting policies and estimates (continued)

14. Financial instruments (continued)

Classification and measurement of financial assets

Financial assets are, on initial recognition, classified into the following four categories: financial assets at fair value through profit or loss, held-to-maturity investments, loans and receivables and available-for-sale financial assets. When financial assets are recognized initially, they are measured at fair value. In the case of financial assets at fair value through profit or loss, relevant transaction costs are directly charged to the profit and loss of the current period; transaction costs relating to financial assets of other categories are included in the amount initially recognized.

Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss include financial assets held for trading and financial assets designated upon initial recognition as at fair value through profit or loss. A financial asset held for trading is the financial asset that meets one of the following conditions: 1) the financial asset is acquired for the purpose of selling in a short term; 2) the financial asset is a part of a portfolio of identifiable financial instruments that are collectively managed, and there is objective evidence indicating that the enterprise recently manages this portfolio for the purpose of short-term profits; 3) the financial asset is a derivative financial instrument. For such kind of financial assets, fair values are adopted for subsequent measurement. All the realized or unrealized gains or losses on these financial assets are recognized in the income statement of the current period.

Financial assets may be designated upon initial recognition as at fair value through profit or loss if one of the following criteria is met:

- 1) The designation eliminates or significantly reduces the inconsistency in the measurement or recognition of relevant gains or losses that would otherwise arise from measuring the financial instruments on a different basis.
- 2) A group of financial instruments is managed and its performance is evaluated on a fair value basis, in accordance with a documented risk management or investment strategy, and information about the group is provided internally on that basis to the key management personnel.
- 3) The financial asset involves a hybrid instrument that contains one or more embedded derivatives, except where the embedded derivative does not significantly modify the cash flows or it is clear that separation of the embedded derivative is prohibited.
- 4) The financial asset contains an embedded derivative that would need to be separately recorded and cannot be separately measured when acquired or at the subsequent balance sheet date.

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III. Significant accounting policies and estimates (continued)

14. Financial instruments (continued)

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

Investments in equity instruments, which have no quoted market price in active markets and whose fair values cannot be reliably measured, should not be designated as financial assets at fair value through profit or loss.

If the financial assets are, on initial recognition, classified into financial assets at fair value through profit or loss, it couldn't be reclassified into other categories; and other categories couldn't be classified into financial assets at fair value through profit or loss.

There are no financial assets at fair value through profit or loss in the reporting period of the Group.

Held-to-maturity investments

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturity that an entity has the positive intention and ability to hold to maturity. Held-to-maturity investments shall be measured at amortized cost using the effective interest method. Gains or losses arising from derecognition, impairment or amortization are recognized in current profit or loss.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Loans and receivables shall be measured at amortized cost using the effective interest method. Gains or losses arising from derecognition, impairment or amortization are recognized in the income statement.

Available-for-sale financial assets

Available-for-sale financial assets are those non-derivative financial assets that are designated as available for sale or are not classified as (a) loans and receivables, (b) held-to-maturity investments or (c) financial assets at fair value through profit or loss. After initial recognition, available-for-sale financial assets are measured at fair value. The premium/ discount is amortized using effective interest method and recognized as interest income or expense. A gain or loss arising from a change in the fair value of an available-for-sale financial asset is recognized in a separate component of capital reserve, except for impairment losses and foreign exchange gains and losses resulted from monetary financial assets, until the financial asset is derecognized or determined to be impaired, at which time the cumulative gain or loss previously recognized in capital reserve shall be removed from capital reserve and recognized in the income statement. Interests and dividends relating to an available-for-sale financial asset are recognized in the income statement for the period they relate to.

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III. Significant accounting policies and estimates (continued)

14. Financial instruments (continued)

Classification and measurement of financial liabilities

The financial liabilities are, upon initial recognition, classified as financial liabilities at fair value through profit or loss and other financial liabilities. For financial liabilities at fair value through profit or loss, relevant transaction costs are directly recognized in the income statement of the current period, and transaction costs relating to other financial liabilities are included in the initially recognized amount.

Financial liabilities at fair value through profit or loss

Financial liabilities at fair value through profit or loss include financial liabilities held for trading and those designated as at fair value through profit or loss. A financial liability held for trading is the financial liability that meets one of the following conditions:

- 1) the financial liability is assumed for the purpose of repurchasing in a short term;
- 2) the financial liability is a part of a portfolio of identifiable financial instruments that are collectively managed, and there is objective evidence indicating that the enterprise recently manages this portfolio for the purpose of short-term profits;
- 3) the financial liability is a derivative financial instrument.

For such kind of financial liabilities, fair values are adopted for subsequent measurement. All the realized or unrealized gains or losses on these financial liabilities are recognized in the income statement of the current period.

Financial liabilities may be designated upon initial recognition as at fair value through profit or loss only when one of the following criteria is met:

- 1) The designation eliminates or significantly reduces the inconsistency in the measurement or recognition of relevant gains or losses that would otherwise arise from measuring the financial instruments on a different basis.
- 2) A group of financial instruments is managed and its performance is evaluated on a fair value basis, in accordance with a documented risk management or investment strategy, and information about the group is provided internally on that basis to the key management personnel.
- 3) The financial liability involves a hybrid instrument that contains one or more embedded derivatives, except where the embedded derivative does not significantly modify the cash flows or it is clear that separation of the embedded derivative is prohibited.

The financial liability contains an embedded derivative that would need to be separately recorded and cannot be separately measured when acquired or at the subsequent balance sheet date.

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III. Significant accounting policies and estimates (continued)

14. Financial instruments (continued)

Financial liabilities at fair value through profit or loss (continued)

If an enterprise has classified a financial liability as financial liability at fair value through profit or loss, the financial liability cannot be reclassified into other financial liabilities; other financial liabilities cannot be reclassified into financial liability at fair value through profit or loss, either.

The Group holds no financial liabilities at fair value through profit or loss at its initial recognition in the reporting period.

Other financial liabilities

After initial recognition, these financial liabilities are measured at amortized cost using the effective interest method.

Derivative financial instruments

Derivative financial instruments are initially recognized at fair value on the date on which a derivative contract is entered into and are subsequently remeasured at fair value. Derivatives are carried as assets when the fair value is positive and as liabilities when the fair value is negative.

Any gains or losses arising from changes in fair value on derivatives that do not qualify for hedge accounting are directly recognized in the income statement.

Fair value of financial instruments

If there is an active market for a financial asset or financial liability, the Group determines the fair value by using the quoted prices. If no active market exists for a financial instrument, the Group establishes fair value by using a valuation technique. Valuation techniques include using recent arm's length market transactions between knowledgeable, willing parties reference to the current fair value of another instrument that is substantially the same, discounted cash flow analysis and option pricing models.

Impairment of financial assets

The Group assesses the carrying amount of a financial asset, at the balance sheet date. If there is objective evidence that the financial asset is impaired, the Group makes provision for the impairment loss. Objective evidence that a financial asset is impaired is evidence arising from one or more events that occurred after the initial recognition of the asset and that event has an impact on the estimated future cash flows of the financial asset which can be reliably estimated.

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III. Significant accounting policies and estimates (continued)

14. Financial instruments (continued)

Impairment of financial assets (continued)

Financial assets carried at amortized cost

If objective evidence shows that the financial assets carried at amortized cost are impaired, the carrying amount of the financial asset shall be reduced to the present value of the estimated future cash flow (excluding future credit losses that have not been incurred). The amount of reduction is recognized as an impairment loss in the income statement. Present value of estimated future cash flow is discounted at the financial asset's original effective interest rate and includes the value of any related collateral.

If a financial asset is individually significant, the Group assesses the asset individually for impairment, and recognizes the amount of impairment in the income statement if there is objective evidence of impairment. For a financial asset that is not individually significant, the Group can include the asset in a group of financial assets with similar credit risk characteristics and collectively assess them for impairment [or assess the asset individually for impairment]. For financial assets that are not impaired upon individual tests (including financial assets that are individually significant or insignificant), impairment tests should be conducted on them again by including them in the group of financial assets. Assets for which an impairment loss is individually recognized will not be included in a collective assessment of impairment.

If, subsequent to the recognition of an impairment loss on a financial asset carried at amortized cost, there is objective evidence of a recovery in value of the financial asset which can be related objectively to an event occurring after the impairment was recognized, the previously recognized impairment loss is reversed and recognised in the income statement. However, the reversal shall not result in a carrying amount of the financial asset that exceeds what the amortized cost would have been had the impairment not been recognized at the date the impairment is reversed.

Financial assets carried at cost

If objective evidence shows that the financial assets carried at cost are impaired, the difference between the present value discounted at the prevailing rate of return of similar financial assets and the book value of the financial asset are provided as a provision. The impairment loss recognized cannot be reversed.

For long-term equity investments, which are accounted for according to the cost method set out by Accounting Standards for Business Enterprises No. 2 – Long-term Equity Investments and has no quoted market price in active markets, and whose fair values cannot be reliably measured, their impairment should also be treated in accordance with the above principle.

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III. Significant accounting policies and estimates (continued)

14. Financial instruments (continued)

Impairment of financial assets (continued)

Available-for-sale financial assets

When there is objective evidence that the asset is impaired, the cumulative loss from declines in fair value that had been recognized directly in capital reserve are removed from equity and recognized in the income statement. The amount of the cumulative loss that is removed from capital reserves and recognized in the income statement (net of any principal repayment and amortization) and current fair value, less any impairment loss on that financial asset previously recognized in the income statement.

If, in a subsequent period, the fair value of a debt instrument classified as available for sale increases and the increase can be related objectively to an event occurring after the impairment was recognized in the income statement, the previously recognized impairment loss shall be reversed with the amount of the reversal recognized in the income statement. Impairment losses recognized in the income statement for a debt instrument investment shall not be reversed through profit or loss.

Transfer of financial assets

Transfer of a financial asset is a transaction whereby the Group assigns or conveys a financial asset to another party (the transferee).

If the Group transfers substantially all the risks and rewards of ownership of the financial asset, the Group derecognizes the financial asset; and if the Group retains substantially all the risks and rewards of the financial asset, the Group does not derecognize the financial asset.

If the Group neither transfers nor retains substantially all the risks and rewards of ownership of the financial asset, the Group determines whether it has retained control of the financial asset. In this case: (i) if the Group has not retained control, it derecognizes the financial asset and recognize separately as assets or liabilities any rights and obligations created not retained in the transfer; (ii) if the Group has retained control, it continues to recognize the financial asset to the extent of its continuing involvement in the transferred financial asset and recognizes an associated liability.

15. Borrowing costs

Borrowing costs are interest and other costs incurred by the Group in connection with the borrowing of the funds. Borrowing costs include interest, amortization of discounts or premiums related to borrowings, ancillary costs incurred in connection with the arrangement of borrowings, and exchange differences arising from foreign currency borrowings.

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III. Significant accounting policies and estimates (continued)

15. Borrowing costs (continued)

The borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset are capitalized. A qualifying asset is an asset (an item of property, plant and equipment and inventory etc.) that necessarily takes a substantial period of time to get ready for its intended use or sale.

The capitalization of borrowing costs are as part of the cost of a qualifying asset shall commence when:

- (a) expenditure for the asset is being incurred;
- (b) borrowing costs are being incurred; and
- (c) activities that are necessary to prepare the asset for its intended use or sale are in progress.

Capitalization of borrowing costs shall cease when substantially all the activities necessary to prepare the qualifying asset for its intended use or sale. And subsequent borrowing costs are recognized in the income statement.

During the capitalization period, the amount of interest to be capitalized for each accounting period shall be determined as follows:

- (a) where funds are borrowed for a specific-purpose, the amount of interest to be capitalized is the actual interest expense incurred on that borrowing for the period less any bank interest earned from depositing the borrowed funds before being used on the asset or any investment income on the temporary investment of those funds;
- (b) where funds are borrowed for a general-purpose, the amount of interest to be capitalized on such borrowings is determined by applying a weighted average interest rate to the weighted average of the excess amounts of cumulative expenditure on the asset over and above the amounts of specific-purpose borrowings.

During the construction or manufacture of assets that are qualified for capitalization, if abnormal discontinuance, other than procedures necessary for their reaching the expected useful conditions, happens, and the duration of the discontinuance is over three months, the capitalization of the borrowing costs is suspended. Borrowing costs incurred during the discontinuance are recognized as expense and charged to the income statement of the current period, till the construction or manufacture of the assets resumes.

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III. Significant accounting policies and estimates (continued)

16. Impairment of assets

The Group determines the impairment of assets, other than the impairment of inventory, deferred income taxes, financial assets, and long-term equity investment which is measured by employing the cost method, for which there is no offer in the active market and of which the fair value cannot be reliably measured, using the following methods:

The Group assesses at the balance sheet date whether there is any indication that an asset may be impaired. If any indication exists that an asset may be impaired, the Group estimates the recoverable amount of the asset and performs impairment tests. Goodwill arising from a business combination and an intangible asset with an indefinite useful life are tested for impairment at least at the end of every year, irrespective of whether there is any indication that the asset may be impaired.

The recoverable amount of an asset is the higher of its fair value less costs to sell and the present value of the future cash flow expected to be derived from the asset. The Group estimates the recoverable amount on an individual basis. If it is not possible to estimate the recoverable amount of the individual asset, the Group determines the recoverable amount of the asset group to which the asset belongs. Identification of an asset group is based on whether major cash flows generated by the asset group are largely independent of the cash flows from other assets or asset groups.

When the recoverable amount of an asset or asset group is less than its carrying amount, the carrying amount is reduced to the recoverable amount. The impairment of asset is provided for and the impairment loss is recognised in the income statement for the current period.

For the purpose of impairment testing, the carrying amount of goodwill acquired in a business combination is allocated, on a reasonable basis, to related asset groups; if it is impossible to allocate to the related asset groups, it is allocated to each of the related sets of asset groups. Each of the related asset groups or related sets of asset groups is an group or set of asset group that is able to benefit from the synergies of the business combination and shall not be larger than a reportable segment determined by the Group.

When an impairment test is conducted on an asset group or a set of asset groups that contains goodwill, if there is any indication of impairment, the Group firstly tests the asset group or the set of asset groups excluding the amount of goodwill allocated for impairment, i.e., it determines and compares the recoverable amount with the related carrying amount and then recognize impairment loss if any. Whereafter, the Group tests the asset group or set of asset groups including goodwill for impairment, the carrying amount (including the portion of the carrying amount of goodwill allocated) of the related asset group or set of asset groups is compared to its recoverable amount. If the carrying amount of the asset group or set of asset groups is higher than its recoverable amount, the amount of the impairment loss is firstly eliminated by and

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III. Significant accounting policies and estimates (continued)

16. Impairment of assets (continued)

amortized to the book value of the goodwill included in the asset group or set of asset groups, and then eliminated by the book value of other assets according to the proportion of the book values of assets other than the goodwill in the asset group or set of asset groups.

Once the above impairment loss is recognized, it cannot be reversed in subsequent periods.

17. Estimated liabilities

The Group recognizes an estimated liability when the obligation arising from a contingency meets the following conditions:

- the obligation is a present obligation of the Group;
- it is probable that an outflow of economic benefits from the Group will be required to settle the obligation;
- a reliable estimate can be made of the amount of the obligation.

Estimated liabilities are initially measured according to the current best estimate for the expenditure necessary for the performance of relevant present obligations, with comprehensive consideration given to factors such as the risks, uncertainty and time value of money relating to contingencies. The book value of the estimated liabilities should be reviewed at each balance sheet date. If there is definite evidence showing that the book value cannot reflect the present best estimate, the book value should be adjusted according to the best estimate.

18. Revenue

Revenue is recognized only when an inflow of economic benefits is probable, the amount of which can be reliably measured, and all of the following conditions are qualified.

Revenue from the sale of goods

The Group has transferred to the buyer the significant risks and rewards of ownership of the goods; the Group retains neither continuing management involvement to the degree usually associated with ownership nor effective control over the goods sold; the amount of revenue can be measured reliably.

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III. Significant accounting policies and estimates (continued)

18. Revenue (continued)

Revenue from the rendering of services

When the outcome of a transaction involving the rendering of services can be estimated reliably at the balance sheet date, revenue associated with the transaction is recognized using the percentage of completion method, or otherwise, the revenue is recognized to the extent of costs incurred that are expected to be recoverable. The outcome of a transaction involving rendering of services can be estimated reliably when all of the following conditions are satisfied: the amount of revenue can be measured reliably; it is probable that the associated economic benefits will flow to the Group; the stage of completion of the transaction can be measured reliably; the costs incurred and to be incurred for the transaction can be measured reliably. The Group determines the stage of completion of a transaction involving the rendering of services by using the proportion of services performed to date to the total services to be performed.

Interest income

It should be measured based on the length of time for which the Group's cash is used by others and the applicable effective interest rate.

Rental income

Rental income from operating leases is recognized by the lessor in the income statement on a straight-line basis over the lease term.

19. Leases

A finance lease is a lease that transfers in substance all the risks and benefits incident to ownership of an asset. An operating lease is a lease other than a finance lease.

The Group recording the operating lease as a lessee

Lease payments under an operating lease are recognized by a lessee on a straight-line basis over the lease term, and either included in the cost of another related asset or charged to the income statement for the current period.

The Group recording the operating lease as a lessor

Rental income under a finance lease is recognized by a lessor on a straight-line basis over the lease term, through profit or loss.

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III. Significant accounting policies and estimates (continued)

20. Employee benefits

Employee benefits are all forms of consideration given and other relevant expenditure incurred by the Group in exchange for service rendered by employees. During the accounting period that the employees render services to the Group, the employee benefits payable is recognized as a liability. When the termination benefits fall due more than 1 year after the balance sheet date, if the discounted value is material, it is reflected in present value.

The employees of the Group participate in social insurance, such as pension insurance, medical insurance, non-employment insurance, etc., and housing accumulation fund, which is managed by local government and the relevant expenditure, is recognized, when incurred, in the costs of relevant assets or the profit and loss for the current period.

When the Group terminates the employment relationship with employees before the end of the employment contracts or provides compensation as an offer to encourage employees to accept voluntary redundancy, a provision shall be recognized for the compensation arising from termination of employment relationship with employees, with a corresponding charge to the income statement for the current period, when both of the following conditions are satisfied: (a) the Group has a formal plan for termination of employment relationship, or has made an offer for voluntary redundancy, which will be implemented immediately; (b) the Group cannot unilaterally withdraw from the termination plan or the redundancy offer.

The same principle is applied to the early retirement plan, as it is for the above-mentioned termination benefits. The salaries, social insurance premiums, etc., to be paid for the early retired employees, during the period from the date when the employees stop rendering service to the normal retirement date, should be recognized as employee benefits payable and charged to the income statement of the current period, when the above conditions for recognising the termination benefit plan are satisfied.

21. Income taxes

Income tax comprises current and deferred tax. Income tax is recognized as an income or an expense and include in the income statement for the current period, except to the extent that the tax arises from a business combination or if it relates to a transaction or event which is recognized directly in equity.

Current tax is the amount of income tax payable in respect of the taxable profit for the current period. Taxable profit is the profit for current period, which is determined in accordance with rules established by the taxation authorities.

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III. Significant accounting policies and estimates (continued)

21. Income taxes (continued)

At the balance sheet date, current income tax liabilities (or assets) for the current and prior periods are measured at the amount expected to be paid to (or recovered from) the tax authorities according to the requirements of the tax laws.

For temporary differences at the balance sheet date between the tax bases of assets and liabilities and their book values, and temporary differences between the book values and the tax bases of items, the tax bases of which can be determined for tax purposes, but which have not been recognized as assets and liabilities, deferred taxes are provided using the liability method.

A deferred tax liability is recognized for all taxable temporary differences, except:

- 1) to the extent that the deferred tax liability arises from the initial recognition of goodwill or the initial recognition of an asset or liability in a transaction which contains both of the following characteristics: (i) the transaction is not a business combination; and (ii) at the time of the transaction, it affects neither the accounting profit nor taxable profit or loss.
- 2) in respect of taxable temporary differences associated with investments in subsidiaries, associates and interests in jointly-controlled enterprises, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

A deferred tax asset is recognized for deductible temporary differences, carryforward of unused tax credits and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carryforward of unused tax credits and unused tax losses can be utilized except:

- 1) where the deferred tax asset relating to the deductible temporary differences arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- 2) in respect of deductible temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, deferred tax assets are only recognized to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilized.

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III. Significant accounting policies and estimates (continued)

21. Income taxes (continued)

At the balance sheet date, deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realized or the liability is settled, according to the requirements of tax laws. The measurement of deferred tax assets and deferred tax liabilities reflects the tax consequences that would follow from the manner in which the Group expects at the balance sheet date, to recover the assets or settle the liabilities.

At the balance sheet date, the Group reviews the book value of deferred tax assets. If it is probable that sufficient taxable income cannot be generated to use the tax benefits of deferred tax assets, the book value of deferred tax assets should be reduced. When it is probable that sufficient taxable income can be generated, the amount of such reduction should be reversed.

22. Significant accounting judgements and estimates

Judgements

When applying the accounting policies of the Group, except for accounting estimates, management will make accounting judgements which have significant effects on the financial statements:

The Group makes a judgment on whether there is any sign of possible assets impairment on the day of balance sheet date at least. If there is any sign of possible assets impairment, the assets concerned should be subject to impairment test based on the estimated recoverable amount. The recoverable amount shall be determined in light of the higher one of the net amount of the fair value of the assets minus the disposal expenses and the current value of the expected future cash flow of the assets. When making an estimate of the present value of the future cash flow of an asset, the Group should estimate the future cash flows of the asset or the relevant assets group, with the appropriate discount rate selected to reflect the present value of the future cash flows.

Uncertainty of accounting estimates

The crucial assumptions of significant accounting estimates in future and other crucial sources of estimated uncertainty, which may result in the significant adjustments to the book value of the subsequent accounting period, are as the following:

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III. Significant accounting policies and estimates (continued)

22. Significant accounting judgements and estimates (continued)

Uncertainty of accounting estimates(continued)

Impairment of goodwill

Goodwill is subject to the impairment test yearly at least, which brings the estimates of the use value of the assets group that is allocated in goodwill. When making an estimate of the use value of the assets concerning goodwill, the Group should estimate the future cash flows of the assets group concerned, with the appropriate discount rate to reflect the present value of the cash flows.

23. First-time adoption of the Accounting Standards for Business Enterprises (*not applicable to IPOs*)

Bad Debt Provisions

Provisions are made under the allowance method. For each individually significant receivables, the impairment test should be conducted individually. Where there is evidence that indicates a impairment, the loss should be recognized with the respective provision accrued, equaling to the difference between the present value of the future cash flows and the book value of receivables. For other receivables concerned, management should accrue the general provisions ,along with the receivables individually tested while no impairment incurred, taking in account the collectibility.

Development Expenditures

When determining the capitalization amount, management should make assumptions such as the expected cahs flows of the assets related, the applicable discount rate and expected benefit period.

Deferred Tax Assets

The Group should recognize the deferred income tax assets arising from all the existing unutilized tax deficits and deductible temporary differences to the extent of the amount of the taxable income which it is most likely to obtain and which can be deducted from the deductible temporary differences. Enormous accounting judgments, as well as the tax planning are compulsory for management to estimate the time and amount of prospective taxable profits and thus determine the appropriate amount of the deferred tax assets concerned.

As is stated in Note II, the Group implements the Accounting Standards for Business Enterprises from 1 January 2007. For changes in accounting policies arising from the first-time adoption of the Accounting Standards for Business Enterprises, the Group

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III. Significant accounting policies and estimates (continued)

23. First-time adoption of the Accounting Standards for Business Enterprises (*not applicable to IPOs*) (continued)

Deferred Tax Assets (continued)

adopts the following method to deal with them, according to provisions relating to the first-time adoption of the Accounting Standards for Business Enterprises.

(1) Changes in accounting policies that are accounted for using the retrospective adjustment method

Long-term equity investments

Before the adoption of the Accounting Standards for Business Enterprises, when long-term equity investments are accounted for using the equity method, excesses of initial investment costs over the investors' shares in the owners' equity of the investee entities, are accounted for as equity investment differences, and evenly amortized over a certain period in the profit and loss. Excesses of the investors' shares in the owners' equity of the investee entities over the initial investment costs, are recorded in the credit balance of the equity investments and evenly amortized over a certain period in the profit and loss, if the investment happened before the issuance of Cai Kuai [2003] Document No. 10; In case equity investment difference arose from additional investment made in or after 2003, they are credited to capital reserve.

After the adoption of the Accounting Standards for Business Enterprises, for details of the accounting policies for long-term equity investments refer to Note III "9 Long-term equity investments".

At the first-time adoption date, equity investment differences, which is related to long-term equity investments arising from business combinations involving entities under common control and have not been fully amortized, should be fully written off; other long-term equity investments accounted for using the equity method should also be fully written off, when there is credit balance for equity investment differences, and the book value of long-term equity investments after writing off the credit balance is recognized as their deemed cost at the first-time adoption date.

Before 1 January, long-term equity investments in subsidiaries are accounted for using the equity method; after the adoption of the Accounting Standards for Business Enterprises, long-term equity investments in subsidiaries are accounted for using the cost method. Refer to Note III "9 'Long-term equity investments'" for the specific accounting policies. At the first-time adoption date, investments in subsidiaries, which have already been held, should be retrospectively adjusted, as if the subsidiaries had adopted the cost method for accounting from the very beginning. After the adoption of the Accounting Standards for Business Enterprises, the Group's shares in profits or cash dividends declared by the subsidiaries should be recognized as investment income.

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III. Significant accounting policies and estimates (continued)

23. First-time adoption of the Accounting Standards for Business Enterprises (*not applicable to IPOs*) (continued)

Income taxes

Before the adoption of the Accounting Standards for Business Enterprises, the Group accounted for income taxes by adopting the taxes payable method.

After the adoption of the Accounting Standards for Business Enterprises, the Group adopts the liability method to account for income taxes. Refer to Note III “20 ‘Income taxes’” for the specific accounting policies.

At the first-time adoption date, the Group makes retrospective adjustments on the tax effect of the temporary difference arising from the difference between the book value of assets and liabilities and their tax basis, and adjusts retained earnings according to the amount of the effect.

Goodwill/consolidation difference

Before the adoption of the Accounting Standards for Business Enterprises, goodwill/consolidation difference arising from business combinations is evenly amortized over a certain period.

After the adoption of the Accounting Standards for Business Enterprises, the amortized value of goodwill arising from business combinations involving entities under common control is fully written off, with an adjustment on retained earnings; for goodwill arising from business combinations involving entities not under common control, if it is related to long-term investments in subsidiaries, the amortized value at the first-time adoption date is recognized as the deemed cost and the goodwill is no longer amortized; if it is related to investments in joint ventures or associates, the goodwill is still amortized using the straight-line method over the original remaining amortization period, and investment income is thus recognized.

Refer to Note III “4 ‘Business combinations’” for details of the accounting policies relating to business combinations.

Financial assets held for trading and available-for-sale financial assets

Before the adoption of the Accounting Standards for Business Enterprises, there is no definition for financial instruments. Investments listed in financial assets under the Accounting Standards for Business Enterprises are classified as short-term investments and long-term investments under the original accounting standards for business enterprises and accounting system for business enterprises, and long-term investments are further classified into long-term equity investments and long-term debt investments. Investments are recognized at initial investment cost upon acquisition, and short-term investments are subsequently measured at the lower of costs and market prices; long-term equity investments are subsequently accounted for

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III. Significant accounting policies and estimates (continued)

23. First-time adoption of the Accounting Standards for Business Enterprises (*not applicable to IPOs*) (continued)

Financial assets held for trading and available-for-sale financial assets(Continued)

using the cost method, if the Group has no control or common control as well as significant influence over the investee entities.

After the adoption of the Accounting Standards for Business Enterprises, the above investments are classified as financial assets at fair value through profit or loss or available-for-sale financial assets. Refer to Note III “13 financial instruments” for the details of relevant accounting policies.

At the first-time adoption date, financial assets classified as (a) assets at fair value through profit or loss (b) assets available for sale that should be measured at fair value, with retained earnings adjusted according to the difference between book value and fair value.

Derivative financial instruments

Before the adoption of the Accounting Standards for Business Enterprises, derivative financial instruments are recorded in the income statement for the current period as off-balance-sheet items upon actual settlement, rather than being recognized in the financial statements.

After the adoption of the Accounting Standards for Business Enterprises, refer to Note III “14” for the details of relevant derivative financial instruments (excluding hedging instruments).

At the first-time adoption date, derivative financial instruments are measured at fair value, and financial assets arising from them are recognized, with corresponding adjustments on retained earnings.

Consolidated financial statements

Before the adoption of the Accounting Standards for Business Enterprises, minority interests are separately presented between liabilities and shareholders’ equity in the consolidated balance sheet, and are presented as a deduction item before the consolidated net profit in the consolidated income statement.

After the adoption of the Accounting Standards for Business Enterprises, minority interests are separately presented as shareholders’ equity in the consolidated balance sheet; profit or loss attributable to shareholders of the parent and to minority shareholders, should be separately presented under the consolidated net profit in the consolidated income statement.

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III. Significant accounting policies and estimates (continued)

23. First-time adoption of the Accounting Standards for Business Enterprises (*not applicable to IPOs*) (continued)

Consolidated financial statements(continued)

While preparing the first financial statements after the adoption of the Accounting Standards for Business Enterprises, the Group should adjust the comparative consolidated financial statements for the prior year according to the presentation requirements of the Accounting Standards for Business Enterprises for minority interests.

For the above changes in accounting policies, the Group has adopted the approach of retrospective adjustment to adjust and restate the financial statements for comparable years, in accordance with the provisions of Accounting Standards for Business Enterprises No. 38. Accumulated impacts of the above changes in accounting policies on shareholders' equity as at 1 January 2006 and 31 December 2006 are as follows:

Note: Impact on the parent's financial reports should also be disclosed in the following format.

Impact of the first-adoption on the net profit of Consolidation for the year 2006 is as follows:

Impact on the consolidated owners' equity: 31 December 2006

	Capital surplus	Surplus reserve	Retained earning	Minority interests
As at 31 December 2006 before retrospective adjustments	2,069,083,424.00	1,729,939,091.00	1,886,907,629.00	1,694,956,851.00
Retrospective adjustments:				
1. Reversal adjustments of difference of long-term equity investment arising from business combination under equity method	-	-	37,076,154.00	-
2. Reversal of Surplus reserves of subsidiaries using older accounting standards	-	(10,425,165.50)	10,425,165.50	-
3. Impact of government grants	(32,462,396.00)	-	(47,359,617.00)	-
4. Impact of deferred tax	-	-	206,780,213.57	5,634,062.24
5. Impact of preliminary expenses into P&L aggregately of the associates	-	-	(301,050,194.00)	-
6. Impact of changes in business combination scope	-	(716,222,381.00)	761,526,702.00	(1,543,192,475.00)
7. Retrospective adjustment of surplus reserves of retained earnings from the Parent Company	-	14,990,203.00	(14,990,203.00)	-
8. Adjustments of consolidated counteraction of value added in FA appraisal	(251,808,539.00)	-	26,128,235.00	-
9. Adjustment of goodwill and respective impairment	73,465,335.00	-	73,465,335.00	-
10. Impact of financing assets measured fairly with changes of values charged to current income held by the associate s	-	-	(16,873,622.00)	-
Balance after retrospective adjustments	<u>1,858,277,824.00</u>	<u>1,018,281,747.50</u>	<u>2,475,105,128.07</u>	<u>157,398,438.24</u>

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III. Significant accounting policies and estimates (continued)

23. First-time adoption of the Accounting Standards for Business Enterprises (*not applicable to IPOs*) (continued)

Impact on the consolidated owners' equity: 1 January 2006

	Capital surplus	Surplus reserve	Retained earning	Minority interests
As before retrospective adjustments	2,035,869,666.00	1,554,130,514.00	1,520,867,418.17	1,658,155,633.00
Retrospective adjustments:				
1. Reversal adjustments of difference of long-term equity investment arising from business combination under equity method	-	-	23,764,361.00	-
2. Reversal of Surplus reserves of subsidiaries using older accounting standards	-	(6,903,401.50)	6,903,401.50	-
3. Impact of government grants	(4,148,946.00)	-	(77,382,585.49)	-
4. Impact of deferred tax	-	-	187,754,470.00	5,634,062.00
5. Impact of preliminary expenses into P&L aggregately of the associates	-	-	(105,474,163.00)	-
6. Impact of reversal of Provision for long-term investment impairment	-	-	12,900,000.00	-
7. Impact of changes in business combination scope	-	(600,656,927.00)	613,329,492.08	(1,452,409,825.00)
8. Retrospective adjustment of surplus reserves of retained earnings from the Parent Company	-	16,729,416.00	(16,729,416.00)	-
9. Adjustments of consolidated counteraction Of value added in FA appraisal	(251,808,539.00)	-	15,425,778.00	-
10. Adjustment of goodwill and respective impairment	73,465,335.00	-	(73,465,335.00)	-
Balance after retrospective adjustments	<u>1,853,377,516.00</u>	<u>963,299,601.50</u>	<u>2,107,893,421.26</u>	<u>211,379,870.00</u>

Impact on the Parent Company's owners' equity: 31 December 2006

	Capital surplus	Surplus reserve	Retained earning
As before retrospective adjustments	2,069,083,424.00	1,003,291,545.00	2,743,304,083.00
Retrospective adjustments:			
1. Reversal adjustments of difference of long-term equity investment arising from business combination under equity method	-	-	37,076,154.00
2. Impact of government grants	(32,462,396.00)	-	(47,359,617.00)
3. Impact of deferred tax	-	-	197,109,174.00
4. Impact of preliminary expenses into P&L aggregately	-	-	(301,050,194.00)
5. Equity method of subsidiaries changes into cost method	(811,573.00)	-	253,548,865.00
6. Retrospective adjustment of surplus Reserves of retained earnings from the Parent Company	-	14,990,203.00	(14,990,203.00)
7. Impact of financing assets measured fairly with changes of values charged to current income held by the associates	-	-	(16,873,622.00)
Balance after retrospective adjustments	<u>2,035,809,455.00</u>	<u>1,018,281,748.00</u>	<u>2,850,764,640.00</u>

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III. Significant accounting policies and estimates (continued)

23. First-time adoption of the Accounting Standards for Business Enterprises (*not applicable to IPOs*) (continued)

Impact on the Parent Company's owners' equity: 1 January 2006

	Capital surplus	Surplus reserve	Retained earning
As before retrospective adjustments	2,035,869,666.00	946,570,186.00	2,330,062,804.73
Retrospective adjustments:			
1. Reversal adjustments of difference of long-term equity investment arising from business combination under equity method	-	-	23,764,361.00
2. Impact of government grants	(4,148,946.00)	-	(77,382,585.49)
3. Impact of deferred tax	-	-	159,356,750.00
4. Impact of preliminary expenses into P&L aggregately of the associates	-	-	(105,474,163.00)
5. Impact of reversal of impairment provision of long-term equity investment	-	-	12,900,000.00
6. Equity method of subsidiaries changes into cost method	(71,964.00)	-	78,977,143.00
7. Retrospective adjustment of surplus Reserves of retained earnings from the Parent Company	-	16,729,416.00	(16,729,416.00)
Balance after retrospective adjustments	<u>2,031,648,756.00</u>	<u>963,299,602.00</u>	<u>2,405,474,894.24</u>

Impact of the first-adoption on the net profit of Consolidation for the year 2006 is as follows:

	Net profit 2006
As before retrospective adjustments	646,749,739.83
Retrospective adjustments:	
1. Reversal adjustments of difference of long-term equity investment arising from business combination under equity method	13,311,793.00
2. Impact of government grants	30,022,968.49
3. Impact of deferred tax	19,025,743.57
4. Impact of preliminary expenses into P&L aggregately of the associates	(195,576,031.00)
5. Impact of reversal of provision for long-term investment impairment	(12,900,000.00)
6. Impact of changes in business combination scope	24,981,755.92
7. Adjustments of consolidated counteraction of value added in FA appraisal	10,702,457.00
8. Impact of financing assets measured fairly with changes of values charged to current income held by the associates	(16,873,622.00)
Changes of Minority Interest	(45,503,306.00)
Including: Impact on minority interest by modified data due to retroapective adjustments	<u>1,465,966.00</u>
Total impact of retrospective adjustments	<u>(172,808,241.02)</u>
Balance after retrospective adjustments	<u>473,941,498.81</u>

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III. Significant accounting policies and estimates (continued)

23. First-time adoption of the Accounting Standards for Business Enterprises (*not applicable to IPOs*) (continued)

Impact of the first-adoption on the net profit of the Parent Company for the year 2006 is as follows:

	Net profit 2006
As before retrospective adjustments	567,213,589.27
Retrospective adjustments:	
1. Reversal adjustments of difference of long-term equity investment arising from business combination under equity method	13,311,793.00
2. Impact of government grants	30,022,968.49
3. Impact of deferred tax	37,752,424.00
4. Impact of preliminary expenses into P&L aggregately of the associates	(195,576,031.00)
5. Impact of reversal of provision for long-term investment impairment	(12,900,000.00)
6. Equity method of subsidiaries changes into cost method	174,571,722.00
8. Impact of financing assets measured fairly with changes of values charged to current income held by the associates	<u>(16,873,622.00)</u>
Balance after retrospective adjustments	<u><u>597,522,843.76</u></u>

(2) Changes in accounting policies that are accounted for using the prospective application method

Except for the changes in accounting policies that are accounted for using the retrospective adjustment method stated in (1) according to relevant provisions of the Accounting Standards for Business Enterprises, the Group adopts the prospective application method for the following major changes in accounting policies that arise from the first-time adoption of the Accounting Standards for Business Enterprises:

Employee benefits

Before the adoption of the Accounting Standards for Business Enterprises, the Group provides employee benefits through profit or loss, based on 14% of the total salary.

After the adoption of the Accounting Standards for Business Enterprises, the Group no longer provides employee benefits based on 14% of the total salary; instead, it recognizes employee benefits payable through profit or loss, according to actual circumstances and employee benefit plans. During the first accounting period after the first-time adoption date, the difference between the employee benefits that should be recognized under the Accounting Standards for Business Enterprises and the balance of employee benefits already provided is charged to the current profits.

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III. Significant accounting policies and estimates (continued)

23. First-time adoption of the Accounting Standards for Business Enterprises (*not applicable to IPOs*) (continued)

Research and development staff cost

Before the adoption of the Accounting Standards for Business Enterprises, the Group expensed all the research and development staff cost in the current income.

After the adoption of the Accounting Standards for Business Enterprises, the Group capitalizes all the R&D staff cost qualifying the relevant conditions and those which don't meet the capitalization criteria are charged to the income statement on occurrence.

24. Other changes in Accounting Policies and Accounting Estimates

There are no other changes in accounting policies and accounting estimates.

IV. Taxes

The major categories of taxes and surcharges with the respective tax rates applicable to the Group are as follows:

Value added tax
("VAT")

– In accordance with the relevant tax laws in the PRC, the VAT rate for domestic sales is 17%. VAT is levied at 17% on the invoiced value of sales of goods and rendering of services, and is payable by the purchaser. The Group is required to pay the VAT it collects to the tax authority, but may deduct the VAT it has paid on eligible purchases.

Business tax

– In accordance with the relevant tax laws in the PRC, Business Tax is levied at 5% on the relevant revenue.

City maintenance and
construction surtax

– In accordance with the relevant tax laws in the PRC, it is levied at 7% on the turnover taxes paid.

Educational surcharge

– In accordance with the relevant tax laws in the PRC, it is levied at 3% on the turnover taxes paid.

Corporate income tax

– In accordance with the relevant tax laws in the PRC, the Group is subject to a corporate income tax rate of 15%~33% on its taxable income.

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IV. Taxes (continued)

Corporate income tax – The Company is subject to the PRC EIT and local income tax. As the Company is qualified as a domestic enterprise in encouraged industries, the Company is entitled to a preferential EIT rate of 15% from 2001 to 2010, in accordance to *Circular on the Issue of Preferential Taxation Policies for Western Development Program (Paragraph 1, Article 2, No 202-2001)* collectively issued by the Ministry of Finance, the National Taxation Bureau and the Customs General Administration of PRC and also approved by the Guo Shui Han-Yu (2002) No 186. And it is exempted from local income tax to a corporate income tax rate of 15%~33% on its taxable income. The EIT rate for other companies of the Group is 33%.

The Enterprise income tax law of the People's Republic of China(hereafter as "New EIT Law") approved by the Fifth Session of The Tenth National People's Congress, ended on March 16 2007, will be enforced as of 1st January 2008. In accordance to the New EIT law, the domestic and foreign enterprises will be subject to 25% unanimously. Whereas the Company keeps a preferential tax rate of 15% in conforms to the relevant tax policies, and the subsidiaries are subject to 25%. The Group has been made respective adjustments due to the reversal of taxable temporary time difference and deductible temporary time difference, according to new applicable tax rates in effect as of 1st January 2008.

V. Consolidation scope

On 31 December 2007, the main subsidiaries of the Group are as follows:

Name of Subsidiaries	Registration Place	Nature of Business	Registered Capital (RMB 10,000)	Investment of the Group (RMB 10,000)	Total proportion of shares held		Company Code	
					Direct(%)	Indirect(%) of voting shares		
Nanjing Changan Auto-Mobile Co., Ltd	Nanjing	Manufacturer, development and seller of mini cars and spare parts	60,181	47,291	73.54	-	83.22	75410659-X
Hebei Changan Auto-Mobile Co., Ltd	Dingzhou	Manufacturer, development and seller of mini cars and spare parts	26,469	20,729	78.16	-	93.45	73872432-0
Chongqing Changan International Automobile Sales Co., Ltd	Chongqing	Seller and agent of import / export services of commodities and tech niques	1,376	1,307	95.00	-	100.00	20282099-8
Chongqing Changan Auto-Mobile Sales Co., Ltd	Chongqing	Seller of cars and spare parts	4,850	4,850	100.00	-	100.00	20289809-0
Chongqing Anfu Auto-Mobile Co., Ltd.	Chongqing	Seller of cars and spare parts	3,200	1,600	50.00	-	50.00	73657088-2
Chongqing Changan Special Automobile Co., Ltd	Chongqing	Seller of special cars and spare parts and vehicles maintenance	500	250	50.00	-	50.00	74534852-X
Chongqing Changan Auto-Mobile sales subsidiaries	China	Seller of Changan series cars and spare parts	3,490	3,290	80-100	20.0	100.00	
Chongqing Changan Auto-Mobile supporting service Co., Ltd.	Chongqing	Seller of cars and spare parts	3,000	3,000	99.00	1.00	99.00	75308943-3
Chongqing Changan Auto-Mobile Mould Co. Ltd	Chongqing	Manufacturer and seller of Car moulds and car spare parts	5,000	5,066	100.00	-	100.00	66089542-8
Chongqing Changan Europe Design Academy Co. Ltd.	Turin, Italy	Research and development of vehicles	EUR 10	97	100.00	-	100.00	09372440017

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V. Consolidation scope (continued)

The company established Chongqing Changan Automobile Mould Co., Ltd in July 2007 with investment in cash and fixed assets.

Although the Group owns more than half of the voting power of the following investees, it does not have control over the investees as:

Name of Subsidiaries	Registration Place	Nature of Business	Registered Capital (RMB 10,000)	Investment of the Group (RMB 10,000)	Total proportion of shares held		Company Code	
					Direct(%)	Indirect(%) of voting shares		
Changan Ford Mazda Auto-Mobile Co., Ltd.	Chongqing	Manufacturer and seller of cars and spare parts	USD 29,344	118,790	50.00	-	50.00	70937510-9
Changan Ford Mazda Engine Co., Ltd	Nanjing	Manufacturer and seller of automobile engine and spare parts	USD 13,920	55,729	50.00	-	50.00	71785962-1
Chongqing Changan Suzuki Automobile Co., Ltd.	Chongqing	Manufacturer and seller of cars and spare parts	USD 7,000	23,991	51.00	-	51.00	62190016-7
Jiangling Holding Co., Ltd.	Nanchang	Manufacturers and seller of cars and spare parts	100,000	50,000	50.00	-	50.00	76703230-7

The parent company does not have control over Jiangling Holding Co., Ltd (Hereafter simply called as 'Jiangling Holding'), due to the fact that neither main financial nor operating proposals of the company can be decided by the parent company. Therefore, it is not included in scope of consolidated financial statements, and the retrospective adjustments have been made. Refer to Note III 22 for details.

Except for the above notes, the scope of consolidated financial statements remains the same as the previous year.

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VI. Notes to the consolidated financial statements

1. Cash and cash equivalents

	2007			2006 (Restated)		
	Original Currency	Rate	Equivalent to RMB	Original Currency	Rate	Equivalent to RMB
Cash						
— RMB			3,183,749.50			216,651.67
Cash in bank						
— RMB			1,451,176,179.95			1,685,633,208.22
— USD	2,444,588.50	7.3046	17,856,741.16	379,828.36	7.8087	2,965,965.71
— JPY	-		-	415,010.00	0.0656	27,224.66
Other cash						
— RMB			111,489,829.43			133,509,794.57
Subtotal of Cash			1,583,706,500.04			1,822,352,844.83
— Less: restricted cash			<u>111,489,829.43</u>			<u>133,509,794.57</u>
Cash and cash equivalents			<u>1,472,216,670.61</u>			<u>1,688,843,050.26</u>

Restriction on ownership of assets due to other reasons

	2007	2006 (Restated)
Deposit for acceptance draft	111,489,829.43	38,509,794.57
Deposit for loans	<u>-</u>	<u>95,000,000.00</u>
	<u>111,489,829.43</u>	<u>133,509,794.57</u>

Interest income earned on current deposits is calculated by using current deposit interest rate.

2. Notes receivable

	2007	2006 (Restated)
Bank acceptance	1,569,870,506.83	1,897,099,383.00
Trade acceptance	<u>26,750,000.00</u>	<u>133,921,819.00</u>
	<u>1,596,620,506.83</u>	<u>2,031,021,202.00</u>

On 31 December 2007, within the aforesaid balance, there is no amount due from shareholders that hold 5% or more of the Company's voting shares(31 December 2006: nil)

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3. Accounts receivable

The credit period is generally one month, extending up to three months for major customers. Trade receivables are non-interest-bearing.

An aged analysis of the accounts receivable as at the balance sheet date is as follows:

	31 December 2007	31 December 2006 (Restated)
Within 1 year	683,110,555.75	460,582,593.15
1 to 2 years	3,997,335.14	17,046,113.70
2 to 3 years	5,387,222.73	6,952,685.00
Over 3 years	<u>5,891,526.00</u>	<u>1,528,081.18</u>
	<u>698,386,639.62</u>	<u>486,109,473.03</u>

On 31 December 2007, the balance of accounts receivable contains USD 19,797,993.00, equivalent to RMB 144,616,419.67. The ageing is less than one year. (2006: USD 18,093,049.79, equivalent to RMB 141,283,197.91)

	2007			
	Amount	Percentage (%)	Bad debt provision	Provision rate(%)
Individually significant items	671,263,259.83	87.60	63,031,854.42	9.39
Group of individually insignificant items with similar credit risk characteristics, that has significant risk	16,252,221.00	2.12	4,861,884.08	29.92
Other insignificant items	<u>78,764,897.29</u>	<u>10.28</u>	-	
Total	<u>766,280,378.12</u>	<u>100.00</u>	<u>67,893,738.50</u>	
	2006 (Restated)			
	Amount	Percentage (%)	Bad debt provision	Provision rate(%)
Individually significant items	498,281,160.50	88.41	70,860,546.92	14.22
Group of individually insignificant items with similar credit risk characteristics, that has significant risk	9,155,798.66	1.62	6,541,993.10	71.45
Other insignificant items	<u>56,201,155.12</u>	<u>9.97</u>	<u>126,101.23</u>	0.22
Total	<u>563,638,114.28</u>	<u>100.00</u>	<u>77,528,641.25</u>	

The individually significant accounts receivable is analysed individually. If there is any evidence proving them devalued, the provision will be raised according to the recoverability.

Items which are individually insignificant but significant as a group are identified as Group of individually insignificant items with similar credit risk characteristics that has significant risk.

Chongqing Changan Automobile Company Limited

Notes to Financial Statement

2007

(Expressed in Renminbi Yuan)

VI. Notes to the consolidated financial statements (Continued)

3. Accounts receivable (Continued)

Changes in provision for bad debts are as follows:

	At beginning of year	Addition Provision	Disposal of Subsidiaries	Decrease Reversal	Write-off	At year end
2007	<u>77,528,641.25</u>	<u>909,421.00</u>	<u>2,444,258.00</u>	<u>4,331,513.75</u>	<u>3,768,552.00</u>	<u>67,893,738.50</u>
2006 (Restated)	<u>82,478,899.25</u>	<u>70,718.00</u>	-	<u>5,020,976.00</u>	-	<u>77,528,641.25</u>

A part of provision reversed is due to the receipt of the accounts receivable in this year.

	2007	2006 (Restated)
Top five debtors, in aggregate	<u>215,235,831.59</u>	<u>184,345,048.79</u>
Percentage	28.09%	32.71%
Aging	with in 2 years	with in 1 year

On 31 December 2007, within the aforesaid balance, there is no amount due from shareholders that hold 5% or more of the Parent Company's voting shares (31 December 2006: nil).

4. Prepayments

An aged analysis of the prepayments as at the balance sheet date is as follows:

	2007		2006 (Restated)	
	Carrying Amount	Percentage (%)	Carrying Amount	Percentage (%)
Within 1 year	360,898,589.52	97.38	247,701,713.00	94.33
1 to 2 years	9,709,169.67	2.62	14,699,274.00	5.60
2 to 3 years	-	-	<u>174,450.00</u>	<u>0.07</u>
	<u>370,607,759.19</u>	<u>100.00</u>	<u>262,575,437.00</u>	<u>100.00</u>

On 31 December 2007, within the aforesaid balance, there is no amount due from shareholders that hold 5% or more of the Company's voting shares (31 December 2006: nil).

Chongqing Changan Automobile Company Limited
Notes to Financial Statement (continued)
2007
(Expressed in Renminbi Yuan)

VI. Notes to the consolidated financial statements (Continued)

5. Other receivables

An aged analysis of the other receivables as at the balance sheet date is as follows:

	2007	2006 (Restated)
Within 1 year	110,430,106.43	122,911,580.20
1 to 2 years	10,387,040.00	33,708,441.00
2 to 3 years	26,326,882.00	14,150,327.00
Over 3 years	<u>3,585,974.50</u>	<u>935,860.42</u>
	<u>150,730,002.93</u>	<u>171,706,208.62</u>

	2007			
	Amount	Percentage (%)	Bad debt provision	Provision rate(%)
Individually significant items	117,020,462.47	70.57	15,012,894.84	12.83
Group of individually insignificant items with similar credit risk characteristics, that has significant risk	-		-	-
Other insignificant items	<u>48,794,119.80</u>	<u>29.43</u>	<u>71,684.50</u>	0.15
	<u>165,814,582.27</u>	<u>100.00</u>	<u>15,084,579.34</u>	

	2006 (Restated)			
	Amount	Percentage (%)	Bad debt provision	Provision rate(%)
Individually significant items	130,826,709.16	69.91	14,451,804.34	11.05
Group of individually insignificant items with similar credit risk characteristics, that has significant risk	974,367.00	0.52	974,367.00	100.00
Other insignificant items	<u>55,331,303.80</u>	<u>29.57</u>	-	-
	<u>187,132,379.96</u>	<u>100.00</u>	<u>15,426,171.34</u>	

The individually significant accounts receivable is analysed individually. If there is any evidence proving them devalued, the provision will be raised according to the recoverability.

On 31 Dec 2007, the amount of RMB 11,805,718.00 in individually significant other receivables is made full provision due to long-term irrecoverability.

Chongqing Changan Automobile Company Limited
Notes to Financial Statement (continued)
2007
(Expressed in Renminbi Yuan)

VI. Notes to the consolidated financial statements (Continued)

5. Other receivables (Continued)

Changes in provision for bad debts of other receivables are as follows:

	At beginning of year	Additon	Deduction	At year end
2007	<u>15,426,171.34</u>	<u>1,413,724.52</u>	<u>1,755,316.52</u>	<u>15,084,579.34</u>
2006	<u>2,729,253.07</u>	<u>12,696,918.27</u>	<u>-</u>	<u>15,426,171.34</u>

	2007	2006 (Restated)
Top five debtors, in aggregate	<u>96,933,844.31</u>	<u>92,221,030.71</u>
Percentage	58.46%	49.28%
Aging	within 3 years	within 3 years

On 31 December 2007, within the aforesaid balance, there is no amount due from shareholders that hold 5% or more of the Company's voting shares(31 December 2006: nil).

6. Inventory

	2007	2006 (Restated)
Raw materials	277,534,188.54	213,699,328.00
Materials in transit	81,227,589.00	95,968,585.12
Work in progress	287,326,408.00	279,960,190.00
Commodity stock	1,145,437,369.75	1,232,154,206.45
Consigned processiong material	925,721.08	5,895,766.00
Consumables	36,601,515.33	38,047,210.00
Less: provision	<u>34,370,781.23</u>	<u>22,937,401.65</u>
	<u>1,794,682,010.47</u>	<u>1,842,787,883.92</u>

Chongqing Changan Automobile Company Limited
Notes to Financial Statement (continued)
2007
(Expressed in Renminbi Yuan)

VI. Notes to the consolidated financial statements (Continued)

6. Inventory (Continued)

Changes in provision for decline in value of inventory:

2007	At beginning of year	Provision	Decrease		At year end
			Reversal	Write-off	
Raw materials	3,638,592.08	-	407,903.68	-	3,230,688.40
Commodity stock	19,298,809.57	19,713,320.60	6,467,728.00	1,627,319.34	30,917,082.83
Consumables	-	223,010.00	-	-	223,010.00
	<u>22,937,401.65</u>	<u>19,936,330.60</u>	<u>6,875,631.68</u>	<u>1,627,319.34</u>	<u>34,370,781.23</u>
2006 (Restated)					
2006 (Restated)	At beginning of year	Provision	Decrease		At year end
			Reversal	Write-off	
Raw materials	1,310,890.30	2,327,701.78	-	-	3,638,592.08
Commodity stock	<u>22,981,837.41</u>	<u>1,584,986.34</u>	<u>5,268,014.18</u>	-	<u>19,298,809.57</u>
	<u>24,292,727.71</u>	<u>3,912,688.12</u>	<u>5,268,014.18</u>	-	<u>22,937,401.65</u>

At the balance sheet date, the finished goods are stated at the lower of cost and net realizable value. If the cost is higher than the net realizable value, provision for the finished goods should be made through profit or loss. If factors that resulted in the provision for the inventory have disappeared and made the net realizable value higher than their book value, the amount of the write-down should be reversed, to the extent of the amount of the provision for the finished goods.

On 31 December 2007, commodity stock of RMB 62,628,728.00 (2006: RMB 72,647,833.00) is used to pledged for short-term loan. of RMB 58,700,000.00 (2006: RMB 48,500,000.00) , please refer to Note VI, 18 for details.

In order to meet dealer's financing need, an automobile sale financial network service protocol is signed by the Company, the bank and the dealer. According to protocol, the Company sells the dealers the vehicles on consignment, and the dealer apply a non-pledge circulation financing payment from bank, according to credit extension letter, to give the Company. Simultaneously, the Company signs a pledging agreement, and pledges the vehicles sold to the dealers on consignment to the bank. The dealers undertake the above financing interest.

On 31 December 2007, the Group pledged the finished goods whose book value amounted to RMB 259,927,214.00 (on 31 December 2006, RMB 96,547,520.00).

Chongqing Changan Automobile Company Limited
Notes to Financial Statement (continued)
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VI. Notes to the consolidated financial statements (Continued)

7. Other current assets

	2007	2006 (Restated)
Rent	283,046.00	4,185,478.19
Others	<u>25,279.00</u>	<u>447,220.81</u>
	<u>308,325.00</u>	<u>4,632,699.00</u>

8. Long-term equity investments

2007

	Initial amount	At beginning of year	Increase	Decrease	Incl: cash dividend of the Year	At year end
Cost method	139,609,274.00	139,609,274.00	-	-	-	139,609,274.00
Equity method	747,875,191.00	3,757,593,018.26	955,395,453.60	684,000,000.00	684,000,000.00	4,028,988,471.86
Less: impairment		<u>27,120,000.00</u>	-	-	-	<u>27,120,000.00</u>
		<u>3,870,082,292.26</u>	<u>955,395,453.60</u>	<u>684,000,000.00</u>	<u>684,000,000.00</u>	<u>4,141,477,745.86</u>

On 31 December 2007, Cost method of Long-term equity investments is listed as follows:

	Shareholding percentage	Initial Amount	At beginning of the year	At year end
South-western Securities Co., Ltd.	1.07%	50,000,000.00	50,000,000.00	50,000,000.00
Chongqing Changan Jinling Vehicles Parts Co., Ltd.	2.90%	2,900,000.00	2,900,000.00	2,900,000.00
Chongqing International Golf Club Co., Ltd.	9.80%	4,900,000.00	4,900,000.00	4,900,000.00
China South Industry Group Finance Co., Ltd.	15.39%	80,000,000.00	80,000,000.00	80,000,000.00
Sichuan Glass Co., Ltd.	0.64%	<u>1,809,274.00</u>	<u>1,809,274.00</u>	<u>1,809,274.00</u>
		<u>139,609,274.00</u>	<u>139,609,274.00</u>	<u>139,609,274.00</u>

Chongqing Changan Automobile Company Limited
Notes to Financial Statement (continued)
2007
(Expressed in Renminbi Yuan)

VI. Notes to the consolidated financial statements (Continued)

8. Long-term equity investments (Continued)

On 31 December 2007, Equity method of Long-term equity investments is list as follows:

	Shareholding percentage	Initial Amount	Accumulated additional Investment	Equity adjustment					Year end balance
				Changes in current year profit/loss	Cash dividend received in current year	Disposal of current year	Accumulated changes in profit/loss	Provision Current year	
Joint venture:									
Chongqing Changan Suzuki Automobile Co., Ltd.	51%	239,905,266.00	-	66,615,531.45	-	-	914,144,394.45	-	1,154,049,660.45
Jiangling Holding Co., Ltd.	50%	500,000,000.00	450,000,000.00	46,365,337.33	-	-	28,682,009.33	-	2,669,322.00
Changan Ford Mazda Automobile Co., Ltd.	50%	210,901,925.00	976,997,992.00	945,943,771.26	(684,000,000.00)	-	874,861,698.26	-	19,375,055.00
Changan Ford Mazda Engine Co., Ltd.	50%	242,568,000.00	314,724,960.00	(145,598,869.63)	-	-	(302,895,498.63)	-	-
Associates									
Chongqing HelpGo Information Technology Co., Ltd.	21%	4,500,000.00	-	1,196,543.45	-	-	2,553,348.45	-	7,053,348.45
		<u>747,875,191.00</u>	<u>1,741,722,952.00</u>	<u>914,522,313.86</u>	<u>(684,000,000.00)</u>	<u>-</u>	<u>1,517,345,951.86</u>	<u>22,044,377.00</u>	<u>4,028,988,471.86</u>

2006 (Restated)

	Initial amount	At beginning of year	Increase	Decrease	Incl:cash dividend of the Year	At year end
Cost method	139,609,274.00	139,609,274.00	-	-	-	139,609,274.00
Equity method	747,875,191.00	2,630,857,924.00	1,546,735,094.26	420,000,000.00	-	3,757,593,018.26
Less: impairment	-	27,120,000.00	-	-	-	27,120,000.00
		<u>2,743,347,198.00</u>	<u>1,546,735,094.26</u>	<u>420,000,000.00</u>	<u>-</u>	<u>3,870,082,292.26</u>

On 31 December 2006, Cost method of Long-term equity investments is list as follows (Restated):

	Shareholding percentage	Initial Amount	At beginning of the year	At year end
South-western Securities Co., Ltd.	1.07%	50,000,000.00	50,000,000.00	50,000,000.00
Chongqing Changan Jinling Vehicles Parts Co., Ltd.	2.90%	2,900,000.00	2,900,000.00	2,900,000.00
Chongqing International Golf Club Co., Ltd.	9.80%	4,900,000.00	4,900,000.00	4,900,000.00
China South Industry Group Finance Co., Ltd.	15.39%	80,000,000.00	80,000,000.00	80,000,000.00
Sichuan Glass Co., Ltd.	0.64%	1,809,274.00	1,809,274.00	1,809,274.00
		<u>139,609,274.00</u>	<u>139,609,274.00</u>	<u>139,609,274.00</u>

Chongqing Changan Automobile Company Limited
Notes to Financial Statement (continued)
2007
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VI. Notes to the consolidated financial statements (Continued)

8. Long-term equity investments (Continued)

On 31 December 2006, Equity method of Long-term equity investments is list as follows:

	Shareholding percentage	Initial Amount	Accumulated additional Investment	Equity adjustment					Year end balance	
				Changes in current year profit/loss	Cash dividend received in current year	Disposal of current year	Accumulated changes in profit/loss	Provision		
							Current year	Accumulated additions		
Joint venture:										
Chongqing Changan Suzuki Automobile Co., Ltd.	51%	239,905,266.00	-	98,366,432.00	-	-	847,528,864.00	-	-	1,087,434,130.00
Jiangling Holding Co., Ltd.	50%	50,000,000.00	450,000,000.00	(45,997,906.00)	-	-	(17,683,328.00)	2,660,073.00	2,669,322.00	484,985,994.00
Changan Ford Mazda Automobile Co., Ltd.	50%	210,901,925.00	936,124,852.00	607,764,119.00	(420,000,000.00)	-	612,917,927.00	400,555.00	19,375,055.00	1,779,319,759.00
Changan Ford Mazda Engine Co., Ltd.	50%	242,568,000.00	314,724,960.00	(132,025,918.00)	-	-	(157,296,629.00)	-	-	399,996,331.00
Associates										
Chongqing HelpGo Information Technology Co., Ltd.	21.43%	4,500,000.00	-	746,531.26	-	-	1,356,804.26	-	-	5,856,805.26
		<u>747,875,191.00</u>	<u>1,700,849,812.00</u>	<u>528,853,258.26</u>	<u>(420,000,000.00)</u>	<u>-</u>	<u>1,286,823,638.26</u>	<u>3,060,628.00</u>	<u>22,044,377.00</u>	<u>3,757,593,018.26</u>

Impairment provision:

2007

	At beginning of year	Increase	Decrease	At year end
Cost Method				
South-western Securities Co., Ltd.	<u>27,120,000.00</u>	<u>-</u>	<u>-</u>	<u>27,120,000.00</u>

2006 (Restated)

	At beginning of year	Increase	Decrease	At year end
Cost Method				
South-western Securities Co., Ltd.	<u>27,120,000.00</u>	<u>-</u>	<u>-</u>	<u>27,120,000.00</u>

Chongqing Changan Automobile Company Limited
Notes to Financial Statement (continued)
2007
(Expressed in Renminbi Yuan)

VI. Notes to the consolidated financial statements (Continued)

8. Long-term equity investments (Continued)

Major financial information of jointly controlled entities and associates

	At the end of 2007 Total Assets	At the end of 2007 Total Liabilities	2007 Business Revenue	2007 Net profits
Jointly controlled entity				
Changan Ford Mazda Automobile Co., Ltd.	13,483,741,098.00	9,413,180,705.00	28,733,656,665.00	1,917,370,253.90
Changan Ford Mazda Engine Co., Ltd.	2,716,734,080.53	2,207,939,158.02	580,870,745.96	(298,617,879.26)
Chongqing Changan Suzuki Automobile Co., Ltd.	4,533,759,661.43	2,308,004,148.68	5,688,473,274.93	123,200,923.20
Jiangling Holding Co., Ltd.	3,065,181,322.00	1,918,113,460.51	954,355,053.02	98,196,567.07
Associates				
Chongqing HelpGo Information Technology Co., Ltd.	110,940,469.16	68,762,777.73	102,215,897.26	5,583,497.22

Associate	Registered address	Nature of business	Company Registered capital	Investment	Shareholding percentage		Proportion of voting power held
					Direct(%) (10,000)	Indirect(%) (10,000)	
Chongqing HelpGo Information Technology Co., Ltd.	Chongqing	Develop, produce and sell pc softwares and hardwares; Consulting and training of computer application technique; Design and maintain computer network(except business that requires preliminary permission or approval prescribed in law; Sell statutories; Agent service commissioned by Chongqing Telecom Company	2,100	450	21.43	-	21.43

Chongqing Changan Automobile Company Limited
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VI. Notes to the consolidated financial statements (Continued)

9. Fixed assets

2007

	Buildings	Machinery	Vehicles	Office and other Equipments	Total
Original price:					
Opening balance	1,083,746,241.00	2,901,184,097.00	44,870,261.00	1,259,339,061.00	5,289,139,660.00
Acquisition	12,178,179.00	56,219,830.78	1,052,665.34	6,245,000.37	75,695,675.49
Transferred from construction in progress	3,786,356.80	62,962,805.00	3,745,640.00	61,034,702.00	131,529,503.80
Disposal and write-off	109,629,569.00	77,645,447.00	6,432,415.48	76,551,748.00	270,259,179.48
Closing balance	<u>990,081,207.80</u>	<u>2,942,721,285.78</u>	<u>43,236,150.86</u>	<u>1,250,067,015.37</u>	<u>5,226,105,659.81</u>
Accumulated depreciation					
Opening balance	202,279,892.00	1,001,594,088.00	21,668,841.00	399,733,008.00	1,625,275,829.00
Provision	29,103,832.80	254,762,120.33	4,834,415.00	96,356,684.62	385,057,052.75
Write-off	95,114,938.61	42,479,494.86	5,891,599.89	37,283,185.69	180,769,219.05
Closing balance	<u>136,268,786.19</u>	<u>1,213,876,713.47</u>	<u>20,611,656.11</u>	<u>458,806,506.93</u>	<u>1,829,563,662.70</u>
Impairment provision:					
Opening balance	-	1,137,161.00	-	-	1,137,161.00
Provision	258,815.00	13,417,810.21	-	21,547,382.86	35,224,008.07
Write-off	-	719,010.00	-	20,895,165.00	21,614,175.00
Closing balance	<u>258,815.00</u>	<u>13,835,961.21</u>	<u>-</u>	<u>652,217.86</u>	<u>14,746,994.07</u>
Book value:					
Opening balance	<u>881,466,349.00</u>	<u>1,898,452,848.00</u>	<u>23,201,420.00</u>	<u>859,606,053.00</u>	<u>3,662,726,670.00</u>
Closing balance	<u>853,553,606.61</u>	<u>1,715,008,611.10</u>	<u>22,624,494.75</u>	<u>790,608,290.58</u>	<u>3,381,795,003.04</u>

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Notes to Financial Statement (continued)
2007
(Expressed in Renminbi Yuan)

VI. Notes to the consolidated financial statements (Continued)

9. Fixed Assets (Continued)

2006 (Restated)

	Buildings	Machinery	Vehicles	Office and other Equipments	Total
Original price:					
Opening balance	1,013,201,425.00	2,523,242,785.00	50,419,566.00	1,097,751,666.00	4,684,615,442.00
Acquisition	2,159,350.00	145,675,415.00	1,194,282.00	3,571,256.00	152,600,303.00
Transferred from construction in progress	68,385,466.00	261,721,168.00	1,224,470.00	173,065,425.00	504,396,529.00
	-	29,455,271.00	7,968,057.00	15,049,286.00	52,472,614.00
Closing balance	<u>1,083,746,241.00</u>	<u>2,901,184,097.00</u>	<u>44,870,261.00</u>	<u>1,259,339,061.00</u>	<u>5,289,139,660.00</u>
Accumulated depreciation:					
Opening balance	160,832,008.00	775,164,354.00	22,063,495.00	316,853,257.00	1,274,913,114.00
Provision	41,717,107.00	231,790,369.00	4,976,990.00	91,263,516.00	369,747,982.00
Write-off	269,223.00	5,360,635.00	5,371,644.00	8,383,765.00	19,385,267.00
Closing balance	<u>202,279,892.00</u>	<u>1,001,594,088.00</u>	<u>21,668,841.00</u>	<u>399,733,008.00</u>	<u>1,625,275,829.00</u>
Impairment provision:					
Opening balance	-	1,463,789.00	-	-	1,463,789.00
Provision	-	-	-	-	-
Write-off	-	326,628.00	-	-	326,628.00
Closing balance	<u>-</u>	<u>1,137,161.00</u>	<u>-</u>	<u>-</u>	<u>1,137,161.00</u>
Book value:					
Opening balance	<u>852,369,417.00</u>	<u>1,746,614,642.00</u>	<u>28,356,071.00</u>	<u>780,898,409.00</u>	<u>3,408,238,539.00</u>
Closing balance	<u>881,466,349.00</u>	<u>1,898,452,848.00</u>	<u>23,201,420.00</u>	<u>859,606,053.00</u>	<u>3,662,726,670.00</u>

On 31 December 2007, buildings with the book value of RMB 81,527,800.81 (2006: RMB 76,604,364.00), machinery with the book value of RMB 94,915,609.81 (2006: nil) and land use rights with the book value of RMB 15,298,392.40 (2006: RMB 4,088,522.00) have been mortgaged as security for bank loans with the value of RMB 117,000,000.00 (2006: RMB 110,000,000.00) to the Company. Please refer to Note VI 12, 18.

On 31 December 2007, the book value of other equipments temporarily laid idle is RMB 14,746,994.07. The above assets have been made full impairment provision (2006: RMB 1,137,161.00).

Chongqing Changan Automobile Company Limited
Notes to Financial Statement (continued)
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VI. Notes to the consolidated financial statements (Continued)

9. Fixed assets (Continued)

The original book value of fixed assets fully depreciated but still in use is as follows:

	Buildings	Machinery	Vehicles	Other Equipments	Total
2007					
Original Price	<u>12,231,819.71</u>	<u>170,402,911.00</u>	<u>2,093,627.86</u>	<u>19,754,676.00</u>	<u>204,483,034.57</u>
Book Value	<u>366,954.59</u>	<u>5,112,087.33</u>	<u>62,808.84</u>	<u>592,640.28</u>	<u>6,134,491.04</u>
2006 (Restated)					
Original Price	<u>8,249,630.00</u>	<u>60,311,275.00</u>	<u>2,992,918.00</u>	<u>12,042,676.00</u>	<u>83,596,499.00</u>
Book Value	<u>247,488.90</u>	<u>1,809,338.25</u>	<u>89,787.54</u>	<u>361,280.28</u>	<u>2,507,894.97</u>

On 31 December 2007, the certificates of titles of buildings with the book value of RMB 58,062,464.11 are to be gained.

On 31 December 2007, there are no fixed assets are rented out or into under finance leases.

Chongqing Changan Automobile Company Limited
Notes to Financial Statement (continued)
2007
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VI. Notes to the consolidated financial statements (Continued)

10. Construction in progress

2007

	Budget	Opening balance	Additions	Transferred to Fixed assets	Other deductions	Closing balance of funds	Source
150,000-unit Project	2,509,968,032.00	1,026,758.00	83,000.00	851,968.00		257,790.00	raised
Mini Bus Production Line	733,526,367.81	38,229,252.00	88,347,481.86	46,391,117.19	1,423,582.00	78,762,034.67	raised
Changan Industrial Garden Project	1,256,675,133.23	9,391,523.00	55,954,783.57	9,034,866.77	874,098.00	55,437,341.80	raised
Hebei Changan Joint and Print Base	26,460,435.00		18,949,469.21	304,523.00	-	18,644,946.21	raised
Hebei Changan Minibus Production Line	8,894,614.00	611,425.00	8,286,351.64	8,897,776.64	-	-	raised
Others	N/A	7,741,765.00	168,849,519.15	66,049,252.20	2,744,905.06	107,797,126.89	raised
		<u>57,000,723.00</u>	<u>340,470,605.43</u>	<u>131,529,503.80</u>	<u>5,042,585.06</u>	<u>260,899,239.57</u>	

2006 (Restated)

	Budget	Opening balance	Additions	Transferred to Fixed assets	Other deductions	Closing balance of funds	Source
150,000-unit Project	2,510,820,000.00	25,177,869.66	10,149,880.33	32,500,191.99	1,800,800.00	1,026,758.00	raised
Mini Bus Production Line	765,584,000.00	43,562,625.00	136,798,266.00	142,131,639.00	-	38,229,252.00	raised
Changan Industrial Garden Project	1,265,710,000.00	20,788,231.59	8,225,053.50	19,621,762.09	-	9,391,523.00	raised
Hebei Changan Joint and Print Base	38,490,000.00	10,640,750.00	1,388,815.00	12,029,565.00	-	-	raised
Hebei Changan Minibus Production Line	8,900,000.00	-	616,811.00	5,386.00	-	611,425.00	raised
Chongqing Anfu 4S Center	9,224,219.00	544,886.00	8,679,333.00	9,224,219.00	-	-	raised
Nanjing Changan CM7 Technique Rebuild	1,000,000.00	1,000,000.00	-	-	1,000,000.00	-	raised
SC6350 Production Line	5,188,708.00	4,257,202.00	931,506.00	5,188,708.00	-	-	raised
Others		170,827,691.75	120,577,861.17	283,695,057.92	31,270.00	7,741,765.00	raised
		<u>276,799,256.00</u>	<u>287,367,526.00</u>	<u>504,396,529.00</u>	<u>2,769,530.00</u>	<u>57,000,723.00</u>	

On 31 December 2007, there are no borrowing costs capitalized during the current year. (2006: RMB 265,607.33)。

On both 31 December 2007 and 31 December 2006, there is no provision for the impairment of construction in progress.

Chongqing Changan Automobile Company Limited
Notes to Financial Statement (continued)
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VI. Notes to the consolidated financial statements (Continued)

11. Project materials

	2007	2006 (Restated)
Specific materials	<u>6,279,679.78</u>	<u>4,161,526.00</u>

12. Intangible assets

2007

	Land use rights	Software use rights	Trademark rights	Total
Original price:				
Opening balance	89,083,647.00	1,157,739.00	36,770,000.00	127,011,386.00
Additions	22,383,684.60	9,556,186.00	-	31,939,870.60
Deductions	-	-	-	-
Closing balance	<u>111,467,331.60</u>	<u>10,713,925.00</u>	<u>36,770,000.00</u>	<u>158,951,256.60</u>
Accumulated amortization:				
Opening balance	812,860.00	591,991.00	16,137,944.00	17,542,795.00
Provision	4,190,576.00	2,349,923.05	2,451,334.00	8,991,833.05
Write-off	-	-	-	-
Closing balance	<u>5,003,436.00</u>	<u>2,941,914.05</u>	<u>18,589,278.00</u>	<u>26,534,628.05</u>
Impairment provision:				
Opening balance	6,700,000.00	-	-	6,700,000.00
Provision	-	-	-	-
Write-off	-	-	-	-
Closing balance	<u>6,700,000.00</u>	<u>-</u>	<u>-</u>	<u>6,700,000.00</u>
Book value:				
Opening balance	<u>81,570,787.00</u>	<u>565,748.00</u>	<u>20,632,056.00</u>	<u>102,768,591.00</u>
Closing balance	<u>99,763,895.60</u>	<u>7,772,010.95</u>	<u>18,180,722.00</u>	<u>125,716,628.55</u>

Chongqing Changan Automobile Company Limited
Notes to Financial Statement (continued)
2007
(Expressed in Renminbi Yuan)

VI. Notes to the consolidated financial statements (Continued)

12. Intangible assets (Continued)

2006 (Restated)	Land use rights	Software use rights	Trademark rights	Total
Original price:				
Opening balance	90,211,134.00	1,137,739.00	36,770,000.00	128,118,873.00
Additions	10,678,590.00	20,000.00	-	10,698,590.00
Deductions	<u>11,806,077.00</u>	-	-	<u>11,806,077.00</u>
Closing balance	<u>89,083,647.00</u>	<u>1,157,739.00</u>	<u>36,770,000.00</u>	<u>127,011,386.00</u>
Accumulated amortization:				
Opening balance	1,751,083.00	362,357.00	13,686,611.00	15,800,051.00
Provision	2,811,853.00	229,634.00	2,451,333.00	5,492,820.00
Write-off	<u>3,750,076.00</u>	-	-	<u>3,750,076.00</u>
Closing balance	<u>812,860.00</u>	<u>591,991.00</u>	<u>16,137,944.00</u>	<u>17,542,795.00</u>
Impairment provision:				
Opening balance	6,700,000.00	-	-	6,700,000.00
Provision	-	-	-	-
Write-off	-	-	-	-
Closing balance	<u>6,700,000.00</u>	-	-	<u>6,700,000.00</u>
Book value:				
Opening balance	<u>81,760,051.00</u>	<u>775,382.00</u>	<u>23,083,389.00</u>	<u>105,618,822.00</u>
Closing balance	<u>81,570,787.00</u>	<u>565,748.00</u>	<u>20,632,056.00</u>	<u>102,768,591.00</u>

On 31 December 2007, intangible assets with the book value of RMB 15,298,392.40 (2006: RMB 4,088,522.00), buildings with the book value of RMB81,527,800.81 (2006: RMB76,604,364.00) and machinery with the book value of RMB94,915,609.81(2006: nil) are used as security for short-term debts with the value of RMB 117,000,000.00 (2006: RMB 110,000,000.00). Please refer to Notes VI 9, 18.

On 31 December 2007 and 31 December 2006, there are no land use rights belonging to the group without certificates.

Chongqing Changan Automobile Company Limited
Notes to Financial Statement (continued)
2007
(Expressed in Renminbi Yuan)

VI. Notes to the consolidated financial statements (Continued)

13. Development expenditure

	2007	2006 (Restated)
Automobile Research and Development	<u>100,710,739.51</u>	<u>-</u>

The amount of internal research and development expenditure is:

	2007	2006 (Restated)
Charged to income statement of the current period	268,006,924.41	357,868,105.06
Recognized as assets	<u>100,710,739.51</u>	<u>-</u>
Total	<u>368,717,663.92</u>	<u>357,868,105.06</u>

14. Goodwill

	2007	2006 (Restated)
Opening balance:		
Cost	83,269,729.00*	83,269,729.00
Accumulated impairment	<u>73,465,335.00</u>	<u>73,465,335.00</u>
Book value	<u>9,804,394.00</u>	<u>9,804,394.00</u>
Book value at the beginning of the year	9,804,394.00	9,804,394.00
Acquisition of subsidiaries	-	-
Disposal of subsidiaries	-	-
Impairment incurred	-	-
Book value at the end of the year	9,804,394.00	9,804,394.00
Closing balance:		
Cost	83,269,729.00	83,269,729.00
Accumulated impairment	<u>73,465,335.00</u>	<u>73,465,335.00</u>
Book value	<u>9,804,394.00</u>	<u>9,804,394.00</u>

*The Group is formed by the capital increase of Hebei Changan Automobile Co., Ltd. and Nanjing Changan Automobile Co., Ltd. The goodwill to Nanjing Changan Automobile Co., Ltd., which is made full provision owing to its accumulated loss, is RMB 73,465,335.00.

Chongqing Changan Automobile Company Limited
Notes to Financial Statement (continued)
2007
(Expressed in Renminbi Yuan)

VI. Notes to the consolidated financial statements (Continued)

15. Long-term deferred expenses

	2007	2006 (Restated)
Gaobao Lake Reservoir Greening	1,620,720.00	1,800,800.00
Other Projects	<u>1,681,307.50</u>	<u>3,124,693.00</u>
	<u>3,302,027.50</u>	<u>4,925,493.00</u>

16. Deferred tax assets/liabilities

Recognized deferred tax assets:

2007

	Provision for the impairment of assets	Accrued expenses and contingent Liabilities	Unpaid Tech develop. Expense and ad Expense	Unpaid Salary and bonus	Total
Opening balance	19,449,679.12	88,113,175.88	9,801,262.02	8,945,091.78	126,309,208.80
Charged to the income statement	<u>3,188,335.88</u>	<u>(13,699,085.88)</u>	<u>(6,237,969.12)</u>	<u>18,330,031.32</u>	<u>1,581,312.20</u>
Closing balance	<u>22,638,015.00</u>	<u>74,414,090.00</u>	<u>3,563,292.90</u>	<u>27,275,123.10</u>	<u>127,890,521.00</u>

2006 (Restated)

	Provision for the impairment of assets	Accrued expenses and contingent Liabilities	Unpaid Tech develop. Expense and ad Expense	Unpaid Salary and bonus	Total
Opening balance	24,215,005.87	78,528,577.38	31,902,055.81	5,378,136.03	140,023,775.09
Charged to the income statement	<u>(4,765,326.75)</u>	<u>9,584,598.50</u>	<u>(22,956,964.23)</u>	<u>4,423,126.19</u>	<u>(13,714,566.29)</u>
Closing balance	<u>19,449,679.12</u>	<u>88,113,175.88</u>	<u>8,945,091.58</u>	<u>9,801,262.22</u>	<u>126,309,208.80</u>

The above deferred tax assets were recognized due to the expectation of the company on there to be enough taxable income in the future period to be deducted by deductible temporary differences.

17. Provision for the impairment of assets

2007

	Opening balance	Provision	Deductions			Closing balance
			Disposal of Subsidiaries	Reversal	Write-off	
Bad debt provision	92,954,812.59	2,323,145.52	2,444,258.00	4,331,513.75	5,523,868.52	82,978,317.84
Provision for obsolete inventory	22,937,401.65	19,936,330.60	-	6,875,631.68	1,627,319.34	34,370,781.23
Provision for the impairment of long-term equity investments	27,120,000.00	-	-	-	-	27,120,000.00
Provision for the impairment of fixed assets	1,137,161.00	35,224,008.07	-	-	21,614,175.00	14,746,994.07
Provision for the impairment of intangible assets	6,700,000.00	-	-	-	-	6,700,000.00
Provision for the impairment of goodwill	<u>73,465,335.00</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>73,465,335.00</u>
Total	<u>224,314,710.24</u>	<u>57,483,484.19</u>	<u>2,444,258.00</u>	<u>11,207,145.43</u>	<u>28,765,362.86</u>	<u>239,381,428.14</u>

Chongqing Changan Automobile Company Limited
Notes to Financial Statement (continued)
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VI. Notes to the consolidated financial statements (Continued)

17. Provision for the impairment of assets (Continued)

2006 (Restated)

	Opening balance	Provision	Addition from disposal of subsidiaries	Deductions		Closing balance
				Reversal	Write-off	
Bad debt provision	85,208,152.32	12,767,636.27	-	5,020,976.00	-	92,954,812.59
Provision for obsolete inventory	24,292,727.71	3,912,688.12	-	5,268,014.18	-	22,937,401.65
Provision for the impairment of long-term equity investments	27,120,000.00	-	-	-	-	27,120,000.00
Provision for the impairment of fixed assets	1,463,789.00	-	-	-	326,628.00	1,137,161.00
Provision for the impairment of intangible assets	6,700,000.00	-	-	-	-	6,700,000.00
Provision for the impairment of goodwill	73,465,335.00	-	-	-	-	73,465,335.00
Total	<u>218,250,004.03</u>	<u>16,680,324.39</u>	<u>-</u>	<u>10,288,990.18</u>	<u>326,628.00</u>	<u>224,314,710.24</u>

18. Short-term loans

	2007	2006 (Restated)
Mortgage loans	117,000,000.00	110,000,000.00
Pledge loans	<u>58,700,000.00</u>	<u>48,500,000.00</u>
Total	<u>175,700,000.00</u>	<u>158,500,000.00</u>

The annual interest rate for the above loans is 5.63%~7.65%.

On 31 December 2007, the mortgage loans are mortgaged by the following assets: 1) Buildings with NBV of RMB 81,527,800.81 (On 31 December 2006, with NBV of RMB 76,604,364.00); 2) Machinery with NBV of RMB 94,915,609.81 (2006: nil); and 3) Land use right with NBV of RMB 15,298,392.40 (On 31 December 2006, with NBV of RMB 4,088,522.00). For details, please refer to Note VI 9, 12.

On 31 December 2007, pledge loans are pledged by the finished goods of cars, whose net book value is RMB 62,628,728.00 (On 31 December 2006, with NBV of RMB 72,647,833.00). For details, please refer to Note VI 6. Pledge loans are all borrowed from China South Industry Group Finance Co., Ltd. (On 31 December 2006: RMB 41,700,000.00)

Chongqing Changan Automobile Company Limited
Notes to Financial Statement (continued)
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(Expressed in Renminbi Yuan)

VI. Notes to the consolidated financial statements (Continued)

19. Financial liabilities held for trading

	2007	2006 (Restated)
Debentures issued and held for trading	<u>513,680,000.00</u>	<u>512,060,000.00</u>

	Total face value	2006-12-31 (restated)	Face value of debentures issued In current year	Interest rate accrued in current year	Paid in Current year	2007-12-31
Debentures	500,000,000.00	512,060,000.00	-	3,990,000.00	516,050,000.00	-
Debentures	<u>500,000,000.00*</u>	-	<u>500,000,000.00</u>	<u>13,680,000.00</u>	-	<u>513,680,000.00</u>
	<u>1,000,000,000.00</u>	<u>512,060,000.00</u>	<u>500,000,000.00</u>	<u>17,670,000.00</u>	<u>516,050,000.00</u>	<u>513,680,000.00</u>

*Authorized by the 66th document "Notes for CHANA Inc.'s issuing of debentures" released by People's Bank of China, CHANA issued 5,000,000 pieces of debentures with face value of RMB100 per piece at par to public. The total value is RMB 500,000,000.00 and maturity period is 1 year. Interest rate per face is 3.65%, and to be repaid with principle and interest on the maturity date.

20. Notes payable

	2007	2006 (Restated)
Bank acceptance	1,389,450,000.00	1,671,430,000.00
Trade acceptance	<u>-</u>	<u>53,150,000.00</u>
Total	<u>1,389,450,000.00</u>	<u>1,724,580,000.00</u>

On 31 December 2007, within the aforesaid balance, the acceptance due from shareholders that hold 5% or more of the Group's voting shares is RMB 38,600,000.00 (31 December 2006: RMB 28,800,000.00).

21. Accounts payable

Accounts payable bear no interest, and are normally repaid in four months.

On 31 December 2007, the accounts payable to units that hold 5% or more of the Company's voting shares or to related parties included in this account balance is RMB 49,385,519.87(31 December 2006: RMB89,888,596.00).

On 31 December both 2007 and 2006, there is no significant accounts payable of over one year.

Chongqing Changan Automobile Company Limited
Notes to Financial Statement (continued)
2007
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VI. Notes to the consolidated financial statements (Continued)

22. Advances receipts

On 31 December 2007, the account balance does not include the advance receipts from units that hold 5% or more of the Company's voting shares (neither does it on 31 December 2006).

On 31 December both 2007 and 2006, there are no significant advance receipts of over one year.s

23. Employee compensation payable

2007

	Opening balance	Additions	Payments	Closing balance
Salary, bonus, allowance and subsidy	107,123,107.55	414,015,257.83	445,261,619.41	75,876,745.97
Employee benefit	25,525,423.24	97,127,216.85	122,578,748.67	73,891.42
Labour fund	-	15,037,226.80	9,401,166.39	5,636,060.41
Social insurance premium	43,959,843.69	68,180,527.53	93,364,719.56	18,775,651.66
Housing accumulation fund	(569,264.06)	17,484,591.00	10,852,621.14	6,062,705.80
	<u>176,039,110.42</u>	<u>611,844,820.01</u>	<u>681,458,875.17</u>	<u>106,425,055.26</u>

2006 (Restated)

	Opening balance	Additions	Payments	Closing balance
Salary, bonus, allowance and subsidy	130,315,818.95	345,004,474.41	368,197,185.81	107,123,107.55
Employee benefit	23,650,579.88	107,483,560.36	105,608,717.00	25,525,423.24
Labour fund	-	5,659,538.40	5,659,538.40	-
Social insurance premium	86,148,035.78	37,260,714.44	79,448,906.53	43,959,843.69
Housing accumulation fund	(901,658.43)	8,263,103.00	7,930,708.63	(569,264.06)
	<u>239,212,776.18</u>	<u>503,671,390.61</u>	<u>566,845,056.37</u>	<u>176,039,110.42</u>

24. Taxes payable

	2007	2006 (Restated)
Corporate income tax	7,845,248.33	57,004,014.19
Business tax	3,651,852.67	4,996,140.34
Value-added tax	(94,163,611.50)	(100,722,224.44)
City maintenance and construction tax	5,983,972.90	10,012,698.69
Income tax	209,302.39	17,390.53
Consumption tax	124,400,987.00	130,815,552.61
Education additional expenses	2,693,378.68	5,152,619.00
Others	141,589.29	(194,112.92)
Total	<u>50,762,719.76</u>	<u>107,082,078.00</u>

For the details of tax base and tax rate, please refer to Note IV.

Chongqing Changan Automobile Company Limited
Notes to Financial Statement (continued)
2007
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VI. Notes to the consolidated financial statements (Continued)

25. Other payables

	2007	2006
Dealer earnest money	12,296,966.00	12,074,380.36
Warrenty	35,265,559.51	33,019,273.32
Repair fees	42,473,622.47	48,529,407.00
Rental fees	3,568,120.00	3,868,190.00
Advertisement fees	19,160,065.42	21,161,448.86
Sales bonus	15,924,658.54	14,018,712.00
Discount transfer	4,430,104.00	3,500,012.00
Technical assignment fees	7,173,548.75	49,447,205.00
Warehousing and transport fees	75,514,260.90	74,742,051.48
Loans temporarily	10,927,217.33	23,400,010.00
Information technology expense	6,686,479.15	23,002,100.00
Project funds	25,780,000.00	275,048,945.00
Project earnest money	22,839,205.83	86,830,219.89
Other intercourse funds	<u>57,898,184.29</u>	<u>62,826,566.38</u>
	<u>339,937,992.19</u>	<u>731,468,521.29</u>

On 31 December 2007, the account balance does not include the other payables from units that hold 5% or more of the Company's voting shares (neither does it on 31 December 2006).

On 31 December both 2007 and 2006, there are no significant accounts of over one year included in the balance of other payables.

26. Contingent liabilities

2007

	Opening balance	Increase	Decrease	Closing balance	Reasons for Credit balance
Warranty	<u>241,366,233.00</u>	<u>246,615,842.45</u>	<u>282,844,668.41</u>	<u>205,137,407.04</u>	Note

2006 (Restated)

	Opening balance	Increase	Decrease	Closing balance	Reasons for Credit balance
Warranty	<u>261,921,411.00</u>	<u>196,090,232.00</u>	<u>216,645,410.00</u>	<u>241,366,233.00</u>	Note

Note: The above represents the warranty cost for repairs and maintenance of vehicles paid during the period.

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VI. Notes to the consolidated financial statements (Continued)

27. Other current liabilities

	2007	2006 (Restated)
Accrued expenses	268,573,136.22	199,542,441.87
Retirement benefit obligations (Notes VI, 30)	5,438,000.00	2,034,063.00
Others	<u>41,630.36</u>	<u>-</u>
	<u><u>274,052,766.58</u></u>	<u><u>201,576,504.87</u></u>

Accrued expenses are listed as follows :

	2007	2006 (Restated)	Reasons for Credit balance
Water and electricity fee	314,884.00	134,453.99	undue
Transportation fee	73,333,312.00	65,414,568.00	undue
Labor service fee	1,176,000.00	383,691.00	undue
Technology service	14,686,354.00	24,564,186.87	undue
Trade discount to be paid	166,664,513.00	93,388,312.00	undue
Tyre distribution expense	4,131,869.39	3,611,104.00	
ERP upgrade expense	987,092.00	4,000,000.00	undue
Market exploit expense	425,350.00	-	undue
Others	<u>6,853,761.83</u>	<u>8,046,126.01</u>	undue
	<u><u>268,573,136.22</u></u>	<u><u>199,542,441.87</u></u>	

28. Long-term loans

	2006 (Restated)	Terms	Interest Rate
China Construction Bank	950,000,000.00	Gurantee	5.58~6.85%

The above long-term loans are pledged by Changan Automobile (Group) Co., Ltd and assured by a deposit of RMB 95,000,000.00 paid by the company.

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VI. Notes to the consolidated financial statements (Continued)

29. Deferred income

2007

	Opening balance	Additions during the year	deductions during the year		Closing balance
			Carry-forward	Others	
Project 863*	20,190,000.50	7,465,000.00	7,333,317.63	-	20,321,682.87
Test on key technology					
Of hybrid electric vehicles	-	5,000,000.00	4,254.00	-	4,995,746.00
Development of Hydrogen					
Internal combustion engine	-	2,800,000.00	1,149,966.42	-	1,650,033.58
Key technology on trans-region					
Platform	-	3,600,000.00	1,790,663.82	-	1,809,336.18
Others	-	2,941,000.00	485,012.11	-	2,455,987.89
	<u>20,190,000.50</u>	<u>21,806,000.00</u>	<u>10,763,213.98</u>	<u>-</u>	<u>31,232,786.52</u>

2006 (Restated)

	Opening balance	Additions during the year	deductions during the year		Closing balance
			Carry-forward	Others	
Project 863	<u>-</u>	<u>20,190,000.50</u>	<u>-</u>	<u>-</u>	<u>20,190,000.50</u>

*The special funds for 863 topic research is used to the research of the ISG Changan mixing dynamic system technology platform, the industrialization and independent integrated development of the exporting Changan vehicles, the development of Changan CV11 hybrid electric vehicles, the research of Changan CV8 hybrid electric automobile technology, and so on. On 31 December 2007, the projects were not finished yet.

30 Other non-current liabilities

	2007	2006 (Restated)
Compensation for retiree after 1 year	<u>38,316,000.00</u>	<u>29,890,718.00</u>

On 31 December 2007, the balance of compensation payable is RMB 43,754,000.00(On 31 December 2006, RMB 31,924,718.00), including RMB 5,438,000.00 to be paid within one year, which is recorded in other current liabilities(On 31 December 2006, RMB 2,034,063.00).

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VI. Notes to the consolidated financial statements (Continued)

31. Share capital

The registered and paid-in share capital of the Company is RMB 1,945,019,040.00; the face value of each share is RMB 1, and the category and structure of the shares are as follows:

	2006 (Restated)		Increase (decrease) in the number of shares during the year				2007-12-31	
	No. of shares	Proportion	Issuance of new shares	Distribution of shares	Shares converted from reserve	Others Subtotal	No. of shares	Proportion
I. Unlisted tradable shares								
1. State-owned shares	-	-	-	-	-	-	-	-
2. Shares held by domestic legal persons	738,255,200	45.548%		147,651,040		147,651,040	885,906,240	45.548%
3. Other domestic shares								
Including:								
Shares held by domestic non-legal persons	-	-	-	-	-	-	-	-
Shares held by domestic natural person	35,331	0.002%	-	-	-	(21,359)	(21,359)	13,972 0.001%
4. Foreign Shares								
Including:								
Shares held by foreign legal persons	-	-	-	-	-	-	-	-
Shares held by foreign natural persons	-	-	-	-	-	-	-	-
Total of unlisted tradable shares	<u>738,290,531</u>	<u>45.550%</u>		<u>147,651,040</u>		<u>(21,359)</u>	<u>147,629,681</u>	<u>885,920,212 45.549%</u>
II. Listed tradable shares								
1. RMB ordinary shares	462,558,669	28.538%	-	92,518,800	-	21,359	92,540,159	555,098,828 28.539%
2. Foreign-funded shares listed domestically	420,000,000	25.912%	-	84,000,000	-	-	84,000,000	504,000,000 25.912%
3. Foreign-funded shares listed overseas								
4. Others								
Total of listed tradable shares	<u>882,558,669</u>	<u>54.450%</u>		<u>176,518,800</u>		<u>21,359</u>	<u>176,540,159</u>	<u>1,059,098,828 54.451%</u>
III Total number of shares	<u>1,620,849,200</u>	<u>100%</u>		<u>324,169,840</u>		<u>-</u>	<u>324,169,840</u>	<u>1,945,019,040 100%</u>

The increase in share capital during the current year arises from the implementation of the scheme of capital accretion and share allotment which allots 2 dividend shares per 10 shares to all shareholders by the Company in May 2007, and Capital Verification Report [2007]No. 28, has thus been issued upon Chongqing Wanyou Accounting Firm.

32. Capital reserves

	2007	2006 (Restated)
Overflow in share capital	1,796,964,940.00	1,796,964,940.00
Impairment of equity investment	16,815,985.00	16,815,985.00
Capital reserve transferred arising from the old standards	44,496,899.00	44,896,899.00
Others*	<u>30,911,769.17</u>	-
	<u>1,889,189,593.17</u>	<u>1,858,277,824.00</u>

*The increase of RMB 30,894,482.01 is because the income tax, which are raised by appraisal increment of fixed assets invested in Nanjing Changan Automobile Co., Ltd after the 2006 enterprises' income tax declaration, does not need to be paid again.

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VI. Notes to the consolidated financial statements (Continued)

33. Surplus reserves

	31 December 2006 (Restated)	Increase during the year	Decrease during the year	31 December 2007
Statutory surplus	<u>1,018,281,747.50</u>	-	-	<u>1,018,281,747.50</u>
	31 December 2005 (Restated)	Increase during the year	Decrease during the year	31 December 2006 (Restated)
Statutory surplus reserves	484,438,037.00	533,843,710.50	-	1,018,281,747.50
Discretionary surplus reserves	<u>478,861,565.00</u>	-	<u>478,861,565.00</u>	-
	<u>963,299,602.00</u>	<u>533,843,710.50</u>	<u>478,861,565.00</u>	<u>1,018,281,747.50</u>

According to the provisions of both the Company Law and the Company's articles of association, surplus reserves are appropriated at 10% of the net profit.

Where the accumulated amount of surplus reserves reaches 50% or more of the Company's registered capital, appropriation can be exempted. According to Cai Qi [2006]No 67 'Notice of relevant finance dealing problems arising from adoption of new "Company Law"', the Company will no longer appropriate statutory public welfare fund from 1 January 2006. The balance of the statutory public welfare fund as at 31 December 2005 will be transferred to the statutory surplus reserves for the use of management.

34. Retained earnings

	2007	2006 (Restated)
Retained earnings at the year-end of the prior year	1,886,907,629.00	1,520,867,418.17
Add: First-time adoption of the Accounting Standards for Business Enterprises Note III 22	588,197,499.07	587,026,003.09
At beginning of year after retrospective adjustment	<u>2,475,105,128.07</u>	<u>2,107,893,421.26</u>
Add: Net profit	666,893,971.66	519,444,804.81
Less: Appropriation to statutory surplus reserves	-	54,982,146.00
Dividends transferred to share capital	<u>421,420,792.00</u>	<u>97,250,952.00</u>
Retained earnings at the year end	<u>2,720,578,307.73</u>	<u>2,475,105,128.07</u>

The sixth conference of fourth board of directors has approved the plan of distribution of annual profit of the year 2007: no cash dividends or stock dividends will be distributed to the shareholders. Capital surplus is transferred to share capital according to 10- 2 proportions on the basis of the shareholding equity on 31 December 2007, 1,945,019,040 shares, which is increased to 2,334,022,848 shares.

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VI. Notes to the consolidated financial statements (Continued)

35. Minority interests

Minority interests of the Group's significant subsidiaries are as follows:

	2007	2006 (Restated)
Chongqing Changan Automobile Import and Export Co., Ltd.	711,444.15	901,485.00
Nanjing Changan Automobile Co., Ltd.	9,468,939.01	69,622,164.00
Hebei Changan Automobile Co., Ltd.	71,063,179.54	55,027,360.24
Chongqing Anfu Automobile Co., Ltd	27,525,009.50	24,131,339.00
Chongqing Changan Special Automobile Co., Ltd	<u>5,878,679.00</u>	<u>7,716,090.00</u>
	<u>114,647,251.20</u>	<u>157,398,438.24</u>

36. Operating revenue and expenses

Operating revenue listed as follows:

	2007	2006 (Restated)
Operating revenue	13,110,073,241.74	11,517,686,537.07
Other operating revenue	<u>612,225,900.93</u>	<u>636,086,500.59</u>
	<u>13,722,299,142.67</u>	<u>12,153,773,037.66</u>

The operating revenue from principal operations and its expenses are listed as follows:

	<u>2007</u>		<u>2006 (Restated)</u>	
	Revenue	Expenses	Revenue	Expenses
Sale of goods	13,077,971,536.74	11,184,336,859.86	11,501,697,976.14	9,776,782,487.60
Rendering of services	<u>32,101,705.00</u>	<u>26,355,398.00</u>	<u>15,988,560.93</u>	<u>9,663,292.74</u>
Total	<u>13,110,073,241.74</u>	<u>11,210,692,257.86</u>	<u>11,517,686,537.07</u>	<u>9,786,445,780.34</u>

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VI. Notes to the consolidated financial statements (Continued)

36. Operating revenue and expenses (Continued)

	2007	2006 (Restated)
Total revenue of the top five clients	<u>1,715,300,080.75</u>	<u>1,980,787,863.80</u>
Proportion by total revenue	12.50%	16.30%

37. Business tax and surcharges

	2007	2006 (Restated)
Business tax	7,523,559.93	9,506,340.00
Consumption tax	271,425,391.00	226,148,438.00
City maintenance and construction tax	38,235,194.24	33,644,769.00
Education additional expenses	17,233,702.21	16,601,278.00
Others	<u>445,736.00</u>	<u>152,253.00</u>
	<u>334,863,583.38</u>	<u>286,053,078.00</u>

Refer to Note IV 'Taxes' for the standard for the calculation and payment of the business tax.

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VI. Notes to the consolidated financial statements (Continued)

38. Financial expenses

	2007	2006 (Restated)
Interest expense	64,717,066.14	88,348,272.33
Less: the amount of capitalized interest	<u>-</u>	<u>265,607.33</u>
	64,717,066.14	88,082,665.00
Less: interest income	26,521,016.14	40,548,623.00
Exchange gain or loss	5,385,565.74	590,730.00
Others	<u>3,524,333.38</u>	<u>23,120,551.00</u>
	<u>47,105,949.12</u>	<u>71,245,323.00</u>

39. Impairment loss on assets

	2007	2006 (Restated)
Bad debt loss	(2,008,368.23)	7,746,660.27
Loss due to the decline in the market price of inventory	13,060,698.92	(1,355,326.06)
Impairment loss on fixed assets	<u>35,224,008.07</u>	<u>-</u>
	<u>46,276,338.76</u>	<u>6,391,334.21</u>

40. Investment income

	2007	2006 (Restated)
Long-term equity investment income accounted for by using the equity method	907,183,999.39	562,142,412.67
Gain or loss arising from the disposal of long-term equity investments	24,999,209.14	850,540.00
Others investment income	<u>-</u>	<u>(104,151.00)</u>
	<u>932,183,208.53</u>	<u>562,888,801.67</u>

On 31 December 2007 and 31 December 2006, the remittance of the Group's investment income is subject to no significant restriction.

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VI. Notes to the consolidated financial statements (Continued)

41. Non-operating income

	2007	2006 (Restated)
Gain on the disposal of non-current assets	3,692,232.67	338,802.00
Government grants	12,936,000.00	14,212,000.00
Others	<u>2,444,804.95</u>	<u>1,138,850.00</u>
	<u>19,073,037.62</u>	<u>15,689,652.00</u>

Government grants comprise the following :

	2007	2006 (Restated)
Finance subsidy *1	6,600,000.00	7,300,000.00
New product grants*2	5,302,000.00	6,857,000.00
Others	<u>1,034,000.00</u>	<u>55,000.00</u>
	<u>12,936,000.00</u>	<u>14,212,000.00</u>

*1: Due to the terms of «Notice on Favourable Policies as Supporting of the Settlement of Changan Industrial Garden Project in Chongqing Yubei District» (Chongqing Yubei Government [2002] No.96), the administrative committee of Konggang Industrial Garden in Yubei District give the company finance grants of RMB 6,600,000.00 as at 31 December 2007 (2006: RMB 7,300,000.00).

*2: According to "About issued <Chongqing Municipality 2006-2010 enterprise new product development to the implementation of preferential policies to support> notice" (Chongqing Economic Development [2006] No. 48) and the Office of the Chongqing Municipal Economic Commission "issued by the Chongqing Municipality 2006-2010 the development of new products for enterprise support policy implementation method. (Simply as "Guidance", the company was granted RMB 5,302,000.00 in 2007 (2006: RMB 6,857,000) for the development of new product. According to the accounting method, the grants shall be included in governments grants.

The above government grants is subject to no additional restrictions

42. Non-operating expenses

	2007	2006 (Restated)
Loss on the disposal of non-current assets	47,498,496.72	6,363,375.00
Loss arising from physical counting	-	36,561.00
Donation expenditure on public welfare	2,881,743.00	1,366,040.00
Exceptional loss	-	510,882.00
Others	<u>1,667,443.16</u>	<u>2,689,796.00</u>
Total	<u>52,047,682.88</u>	<u>10,966,654.00</u>

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VI. Notes to the consolidated financial statements (Continued)

43. Income tax expense

	2007	2006 (Restated)
Income tax expense of the current period	21,547,599.66	16,144,775.00
Deferred tax expense	<u>(1,581,312.20)</u>	<u>13,714,566.29</u>
	<u>19,966,287.46</u>	<u>29,859,341.29</u>

The relationship between the income tax expense and the total profit is listed as follows:

	2007	2006 (Restated)
Total profit	653,939,067.05	503,800,840.10
Tax at the statutory [or applicable] tax rate (Note)	215,799,892.13	166,254,277.23
Tax rate at statutory or authorized deduction and exemption	(178,237,487.52)	(106,097,373.74)
Profit or loss attributable to joint ventures and associates	(136,077,599.91)	(84,321,361.90)
Income not subject to tax	(68,972.97)	(3,642,094.93)
Non-deductible tax expense	13,074,518.13	13,846,116.81
Impact of the change in tax rate	5,526,089.00	-
Unrecognized tax loss	118,805,893.45	79,108,488.25
Tax discount calculated	-	(11,205,039.00)
Tax returned	-	(1,452,486.00)
Additional deduction arising from research and development expense	(18,782,556.86)	(22,684,280.82)
Others	<u>(73,433.99)</u>	<u>53,095.39</u>
Tax expense under actual tax rate of the group	<u>19,966,287.46</u>	<u>29,859,341.29</u>

Note: The Group accrues the income tax according to the estimated taxable income and suitable tax rate which are acquired in the churchyard of China.

On 16 March 2007, "People's Republic of China Enterprise Income Tax law" ("new enterprise income tax law"), which will become effective in 1 January 2008, was adopted in the tenth National People's Congress fifth conference. The new enterprise income tax law has introduced the change that both domestic capital and the foreign-funded enterprises apply the unified tax rate of 25%, and so many other changes. The Group has adjusted the balance of deferred tax assets on 31 December 2007 according to the new tax rate of 25% which is supposed to be applied in 1 January 2008. As a result, the impact on the income tax expense of current year is RMB 5,526,089.00, which has already been included in the financial statements of 2007.

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VI. Notes to the consolidated financial statements (Continued)

44. Earnings per share

The basic EPS is calculated by dividing the net profit of the current period attributable to the ordinary shareholders of the Company by the weighted average number of outstanding ordinary shares.

The Company has no dilutive potential common stock.

45. Other cash paid or received relating to operating activities

Significant cash flows are listed as follows:

	2007	2006 (Restated)
Other cash received relating to operating activities:		
Government subsidy	12,936,000.00	14,212,000.00
Interest received	26,521,016.14	40,548,623.00
Special grants	21,506,000.00	20,190,000.50
Other cash paid relating to operating activities:		
Selling expense	617,697,785.70	649,830,101.07
Administrative expense	429,747,399.01	499,067,130.82
Other cash received relating to financing activities:		
Deposit returned	133,509,794.57	-
Proceeds received from issuance of bonds	500,000,000.00	500,000,000.00
Other cash paid relating to financing activities:		
Repayment of bonds	500,000,000.00	-
Deposit paid	111,489,827.50	133,509,794.57

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VI. Notes to the consolidated financial statements (Continued)

46. Cash flows from operating activities

	2007	2006 (Restated)
Cash flows from operating activities calculated by adjusting the net profit:		
Net profit	633,972,779.59	473,941,498.81
Plus: impairment provision for assets	46,276,338.76	6,391,334.21
depreciation on fixed assets	385,057,052.75	369,747,983.00
amortization of intangible assets	8,991,833.05	1,742,744.00
amortization of long-term deferred expense	3,001,310.00	4,707,310.00
disposal of fixed assets, intangible assets and others	43,806,264.05	6,024,573.00
financial expense	64,717,066.14	88,082,665.00
investment loss	(932,183,208.53)	(562,888,801.67)
decrease in deferred tax assets	(1,581,312.20)	13,714,566.29
decrease in inventory	36,672,493.87	658,857,171.14
decrease in recurrent receivables	149,368,380.83	(1,090,690,712.92)
increase in recurrent payables	<u>49,538,715.67</u>	<u>750,465,384.36</u>
Net cash flows from operating activities	<u>487,637,713.98</u>	<u>720,095,715.22</u>

47. Cash and cash equivalents

	2007	2006 (Restated)
Cash	1,472,216,670.61	1,688,843,050.26
Including: cash on hand	3,183,749.50	216,651.67
Bank deposits that can be used for payment whenever necessary	1,469,032,921.11	1,688,626,398.59
Other monetary capital that can be used for payment whenever necessary	-	-
Balance of 'Cash and cash equivalents' at the end of the year	<u>1,472,216,670.61</u>	<u>1,688,843,050.26</u>

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VI. Notes to the consolidated financial statements (Continued)

48. Disposal of subsidiaries

1. Original subsidiaries that are no longer included in the combination during the current year

	Place of registration	Nature of business	Total proportion of shares held by the Group	Total proportion of voting shares owned by the Group	Reason for no longer being a subsidiary
Chongqing Changan Automobile Sales Subsidiaries	PRC	Sale of Cars and Spare Parts	80%-100%	80%-100%	Note

Note: The Company, the owner of Chongqing Changan Automobile Sales subsidiaries, has signed equity disposal agreements with third parties between January 2007 and April 2007 and agreed to sell its ownership shares of its subsidiaries at the total price of RMB 69,082,412.00. The disposal date is between January 2007 and April 2007. Therefore, as of May 2007, Chongqing Changan Automobile Sales Subsidiaries are no longer included in the combination of the Group. Relevant financial information of Chongqing Changan Automobile Sales subsidiaries is listed as follows:

1. Original subsidiaries that are no longer included in the combination during the current year (Continued)

	On equity disposal Day Book Value	2006 (Restated) Book Value
Cash	6,581,110.00	2,766,765.00
Notes receivable	-	32,649,600.00
Accounts receivable	3,752,586.00	2,210,380.00
Other receivables	656,174.00	616,382.00
Prepayment	32,933,753.00	10,297,093.00
Deferred assets	15,232,536.00	1,654,747.00
Inventory	165,400,011.00	206,331,466.00
NBV of fixed assets	1,353,211.00	1,735,486.00
Accounts payable	(175,399,396.00)	(244,771,380.00)
Advances receipts	(1,889,335.00)	(1,022,752.00)
Other payables	(10,002,244.00)	(7,005,219.00)
Taxes payable	9,578,647.00	33,179,001.00
Employee compensation payable	(3,859,457.00)	(4,020,908.00)
Other current liabilities	(254,393.00)	(49,435.00)
	<u>44,083,203.00</u>	<u>34,571,226.00</u>
Gain arising from disposal	<u>24,999,209.00</u>	
Disposal price	<u>69,082,412.00</u>	
		1 January 2007 to disposal day
Operating revenue		307,910,378.00
Operating costs		298,395,989.00
Net profit		1,225,601.00

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48. Disposal of subsidiaries (Continued)

2. Cash flows arising from the disposal of subsidiaries

Analysis on the net amount of cash flows arising from the disposal of the above subsidiary is as follows:

	2007
Price for the disposal of the subsidiary	69,082,412.00
Cash received for the disposal of the subsidiary	69,082,412.00
Less: cash held by the subsidiary	<u>(6,581,110.00)</u>
Net cash flows received on the disposal of the subsidiary	<u>62,501,302.00</u>

VII. Segment Report

Since over 90% revenue and assets of the Group are from domestic automobile sales, there's no necessity to further disclose the segment report regionally, functionally.

VIII. Related party relationships and transactions

1. Criteria for the identification of related parties

If a party has the power to control, jointly control or exercise significant influence over another party, they are regarded as related parties. Two or more parties are also regarded as related parties if they are subject to control, joint control or significant influence from the same party.

The following are related parties of the Group:

- 1) parents of the Group;
- 2) subsidiaries of the Group;
- 3) other enterprises that are controlled by the same parent as the Group;
- 4) investors who have joint control over the Group;
- 5) investors who can exercise significant influence over the Group;
- 6) joint ventures in which the Group is a venturer;
- 7) associates of the Group;
- 8) principal individual investors of the Group, and close family members of such individuals;
- 9) key management personnel of the Group or its parent, and close family members of such individuals;
- 10) other enterprises that are controlled, jointly controlled, or significantly influenced by the Group's principal individual investors, key management personnel, or close family members of such individuals.

Enterprises are not regarded as related parties simply because they are under the common control from the State, if no other related party relationships exist between them.

Chongqing Changan Automobile Company Limited
Notes to Financial Statement (continued)
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VIII. Related party relationships and transactions

2. Parents and subsidiaries

Name of the parent	Place of registration	Nature of the business	Proportion of shares in the Company	Corporate type	Legal representative
China South Industries Motor Company Limited	Beijing	Manufacture and sale of automobiles, engine, components	45.548%	Stock Limited Company	Xu Bin

Refer to Note V “Scope of consolidation for consolidated financial statements” for details of the Group’s subsidiaries.

3. Other related parties

Name of the related parties	Relationship
China South Industries Automobile Co., Ltd - Chongqing Tsingshan Transmission Branch (hereafter referred to as “CSIA-Chongqing Tsingshan Transmission Branch”)	Branch of parent
China South Industries Automobile Co., Ltd - Sichuan Ningjiang Shock-absorbing Works Branch (hereafter referred to as “CSIANingjiang Shock-absorbing Works Branch”)	Branch of parent
China South Industries Automobile Co., Ltd - Jian'an Automobile Bridge Branch (hereafter referred to as “CSIA-Jian'an Automobile Bridge Branch”)	Branch of parent
Chongqing Automobile Air-conditioner Co., Ltd	Subsidiary of CSIA
Chongqing Changfeng Jiquan Machinery Co., Ltd	Subsidiary of CSIA
Chongqing Changan Jinling Vehicles Parts Co., Ltd	Subsidiary of CSIA
Changan Ford Mazda Engine Co., Ltd	Joint ventures
Changan Ford Mazda Automobile Co., Ltd	Joint ventures
Chongqing Changan Suzuki Automobile Co., Ltd	Joint ventures
Jiangling Holding Co., Ltd	Joint ventures
Chongqing HelpGo Information Technology Co., Ltd	Associate of the Group
Chongqing Shangfang Automobile Fittings Co., Ltd	Subsidiary of CSIG
Chongqing Dajiang Xinda Vehicles Shares Co., Ltd	Subsidiary of CSIG

Chongqing Changan Automobile Company Limited
Notes to Financial Statement (continued)
2007
(Expressed in Renminbi Yuan)

VIII. Related party relationships and transactions (continued)

3. Other related parties (continued)

Name of the related parties	Relationship
Chengdu Tianxing Instrument and Meter Co., Ltd	Subsidiary of CSIG
Chengdu Lingchuan Vehicle Oil Tank Co., Ltd	Subsidiary of CSIG
China South Industry Group Finance Co., Ltd	Subsidiary of CSIG
Chongqing Wanbing Material Co., Ltd	Subsidiary of CSIG
Sichuan Hongguang Machinery and Electrics Co., Ltd	Subsidiary of CSIG
Chengdu Lingchuan Special Industry Co., Ltd	Subsidiary of CSIG
Chongqing Yihong Engineering Plastic Products Co., Ltd	Subsidiary of CSIG
Hubei Xiaogan Huazhong Automobile Light Co., Ltd	Subsidiary of CSIG
Yunnan Xiyi Industries Co., Ltd	Subsidiary of CSIG
Longchang Shanchuan Shock-absorbing Works Industries Co., Ltd	Subsidiary of CSIG
Chongqing Jianshe Automobile Air-conditioner Co., Ltd	Subsidiary of CSIG
Southwest Industries Corporation	Subsidiary of CSIG
Chengdu Wanyou Economic Technological Development Co., Ltd	Subsidiary of CSIG
Chongqing Wanyou Economic Development Co., Ltd	Subsidiary of CSIG
Chongqing Jiangling Construction Co., Ltd	Subsidiary of CSIG
Baoding Changan Car Manufacturing Co., Ltd	Subsidiary of CSIG
Chongqing Changan Construction Co., Ltd	Subsidiary of CSIG
Changan Automobile Group Co. Ltd	Subsidiary of CSIG
Chengdu Ningxing Automobile Spring Co., Ltd	Subsidiary of parent
South Yingte Air-conditioner Co., Ltd	Subsidiary of parent
South Tianhe Chassis System Co., Ltd	Subsidiary of parent
Chongqing Changan Lingyun Automobile Components Co., Ltd	Subsidiary of CSIG
Chongqing Shanrui Automobile Components Co., Ltd	Associate of the Group
Chongqing Xiyi Automobile Linkage Rod Co., Ltd	Associate of the Group
Beijing Beiji Mechanical and Electrical Industry Co., Ltd	Subsidiary of CSIG
Chengdu Wanyou Filter Co., Ltd	Subsidiary of CSIG
Chongqing Changan Kuayue Automobile Co., Ltd	Subsidiary of CSIG
Chongqing Dajiang Millison Die-Casting Co., Ltd	Subsidiary of CSIG
Chongqing Dajiang Yuqiang Plastic Co., Ltd	Subsidiary of CSIG
Congqing Jiangda Aluminium Alloy Wheel Co., Ltd	Subsidiary of CSIG
Chongqing Jinhai Standard Parts Co., Ltd	Subsidiary of CSIG
Chongqing Qingshan Sales Co., Ltd	Subsidiary of CSIG
Chongqing Wanyou Auto Sales and Service Corporation	Subsidiary of CSIG
Chongqing Yida Automobile Parts Co., Ltd	Subsidiary of CSIG
Chongqing Changrong Machinery Co., Ltd	Subsidiary of CSIG

Chongqing Changan Automobile Company Limited
Notes to Financial Statement (continued)
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(Expressed in Renminbi Yuan)

VIII. Related party relationships and transactions (continued)

4. Major transactions between the Group and its related parties

(1) Sales of goods to related parties:

	2007	2006 (Restated)
Chengdu Wanyou Economic Technological Development Co., Ltd	676,049,501.29	452,214,248.05
Chongqing Wanyou Economic Development Co., Ltd	157,321,338.10	551,849,290.12
Chongqing Wanyou Vehicle Sales Service Co., Ltd	19,625,353.08	96,353,779.72
Chongqing Dajiang Xinda Vehicles Shares Co., Ltd	441,025.64	2,243,346.15
Changan Automobile Group Co. Ltd	242,510.76	28,332,150.00
Chengdu Lingchuan Vehicle Oil Tank Co., Ltd	17,537,815.29	-
Sichuan Hongguang Machinery and Electrics Co., Ltd	36,630,046.38	30,920,226.00
CSIA Ningjiang Shock-absorbing Works Branch	2,617,556.16	1,062,500.00
Baoding Changan Car Manufacturing Co., Ltd	9,324,786.32	-
Southwest Industries Corporation	392,105,912.85	-
Chongqing Changan Kuayue Automobile Co., Ltd	78,837,685.48	53,479,922.56
Chongqing Wanbing Material Co., Ltd	163,605,943.49	114,598,885.00
Changan Ford Mazda Automobile Co., Ltd	13,073,357.12	11,653,260.00
Jiangling Holding Co., Ltd	71,588,756.37	38,893,284.62
Chongqing Changan Suzuki Automobile Co., Ltd	241,475,305.03	143,362,513.74

Chongqing Changan Automobile Company Limited
Notes to Financial Statement (continued)
2007
(Expressed in Renminbi Yuan)

VIII. Related party relationships and transactions (continued)

4. Major transactions between the Group and its related parties (continued)

(1) Sales of goods to related parties (Continued):

	2007	2006 (Restated)
CSIA-Jian'an Automobile Bridge Branch	2,362,849.11	1,608,310.00
CSIA-Chongqing Tsingshan Transmission Branch	1,533,937.35	892,337.00
Chongqing Changan Jinling Vehicles Parts Co., Ltd	52,975,863.37	75,278,061.00
Chengdu Lingchuan Special Industry Co., Ltd	43,052,951.27	48,494,562.00
Longchang Shanchuan Shock-absorbing Works Industries Co., Ltd	-	1,174,367.00
	<u>1,980,402,494.46</u>	<u>1,652,411,042.96</u>

The Group sells vehicles, engines, accessories and provides maintenance service to related parties according to market prices.

The amount of the sales of goods to related parties accounts for 14.43% of the amount of sales of goods of the Group in 2007 (2006: 13.60%).

(2) Purchases of goods from related parties:

	2007	2006 (Restated)
Chongqing Wanyou Economic Development Co., Ltd	77,737,126.74	71,043,880.00
Chongqing Jinhai Standard Parts Co., Ltd	6,666,014.67	24,945,304.71
Congqing Jiangda Aluminium Alloy Wheel Co., Ltd	11,496,649.09	16,235,691.47
Chongqing Changrong Machinery Co., Ltd	35,807,820.39	63,036,713.13
Chongqing Dajiang Yuqiang Plastic Co., Ltd	1,126,103.81	3,088,812.00
Chongqing Yihong Engineering Plastic Products Co., Ltd	12,167,890.35	17,668,020.13
Chengdu Tianxin Instrument and MeterCo., Ltd	50,656,304.25	34,130,823.42
Hubei Xiaogan Huazhong Automobile Light Co., Ltd	57,343,886.78	35,685,383.26
Sichuan Hongguang Machinery and Electrics Co., Ltd	55,993,201.41	54,550,691.00
Chongqing Dajiang Xinda Vehiclces Shares Co., Ltd	47,667,044.19	50,405,680.37
Chengdu Lingchuan Vehicle Oil Tank Co., Ltd	29,335,275.17	21,554,219.10
Chengdu Wanyou Filter Co., Ltd	4,531,883.64	7,795,238.38
Chongqing Changan Linyun Automobile Parts Co., Ltd	121,909,486.25	76,319,633.33
Changan Automobile Group Co. Ltd	31,445,611.47	83,793,044.04
Yunnan Xiyi Industries Co., Ltd	23,644,536.28	17,968,980.97

Chongqing Changan Automobile Company Limited
Notes to Financial Statement (continued)
2007
(Expressed in Renminbi Yuan)

VIII. Related party relationships and transactions (continued)

4. Major transactions between the Group and its related parties (continued)

(2) Purchases of goods from related parties:

	2007	2006 (Restated)
Chongqing Qingshan Sales Co., Ltd	6,905,880.44	5,088,589.98
Baoding Changan Car Manufacturing Co., Ltd	59,995,073.58	11,212,593.00
Chongqing Jianshe Automobile Air-conditioner Co., Ltd	74,937,307.65	84,571,650.21
Chongqing Shangfan Automobile Parts Co., Ltd	43,870,112.66	43,710,580.05
Beijing Beiji Mechanical and Electrical Industry Co., Ltd	1,980,103.42	-
Chongqing Changan Kuayue Automobile Co., Ltd	28,510,533.35	24,824,004.84
Changan Ford Mazda Automobile Co., Ltd	357,080,286.68	311,043,052.00
Chongqing Changan Suzuki Automobile Co., Ltd	5,653,954.51	-
CSIA-Jian'an Automobile Bridge Branch	338,532,705.34	289,954,188.00
CSIA-Chongqing Tsingshan Transmission Branch	387,599,152.20	279,283,721.00
CSIA-Ningjiang Shock-absorbing Works Branch	54,521,061.16	63,503,757.00
Chongqing Changan Jinling Vehicles Parts Co., Ltd	391,191,376.05	585,769,831.00
Longchang Shanchuan Shock-absorbing Works Industries Co., Ltd	49,131,320.97	42,278,366.36
Chengdu Ningxing Automobile Spring Co., Ltd	2,014,271.55	-
South Tianhe Chassis System Co., Ltd	144,011,594.03	114,338,226.38
South Yingte Air-conditioner Co., Ltd	46,049,458.59	42,505,298.55
Chongqing Automobile Air-conditioner Co., Ltd	45,411,613.16	88,570,364.00
Chengdu Lingchuan Special Industry Co., Ltd	81,921,633.34	94,954,239.95
Chongqing Xiyi Automobile Linkage Rod Co., Ltd	19,949,039.63	
Chongqing Shanrui Automobile Components Co., Ltd	17,297,513.09	16,683,110.02
Chongqing Dajiang Millison Die-Casting Co., Ltd	4,271,597.30	
Chongqing Changfeng Jiquan Machinery Co., Ltd	90,578.74	8,528,431.00
	<u>2,728,455,001.93</u>	<u>2,685,042,118.65</u>

In 2007, the amount of the purchases of goods from related parties is for 26.90% of the amount of purchases of goods of the Group (2006: 21.62%)

The purchase made from affiliated enterprises is market oriented, of which the price is flowed with market price. And there is no deviation from market price for the previous years' purchase from affiliated enterprises.

Chongqing Changan Automobile Company Limited
Notes to Financial Statement (continued)
2007
(Expressed in Renminbi Yuan)

VIII. Related party relationships and transactions (continued)

4. Major transactions between the Group and its related parties (continued)

(3) Other major related-party transactions:

<u>Payment of integrated service charges</u>	2007	2006 (Restated)
Changan Automobile Group Co. Ltd		
Payment of trademark royalties	10,621,440.00	10,329,180.00
Payment of land rental fees	7,798,040.00	12,557,439.00
Payment of building rental fees	14,324,598.00	19,067,712.00
Payment of administrative expenses	77,323,647.01	66,650,634.00
Payment of welfarism	36,082,015.00	38,207,111.00
Payment of education fees	4,025,200.00	4,239,853.00
Payment of fire fighting fees	10,043,312.00	9,995,648.00
Payment of labour union fee	5,391,761.00	5,653,137.00
Others	<u>6,449,965.86</u>	<u>6,054,941.00</u>
	<u>172,059,978.87</u>	<u>172,755,655.00</u>

Chongqing Changan Automobile Company Limited
Notes to Financial Statement (continued)
2007
(Expressed in Renminbi Yuan)

VIII. Related party relationships and transactions (continued)

4. Major transactions between the Group and its related parties (continued)

(3) Other major related-party transactions (continued):

<u>Purchase of intangible assets</u>	2007	2006
Baoding Changan Car Manufacturing Co., Ltd	<u>16,497,595.00</u>	<u>-</u>
 <u>Purchase of project materials</u>	 2007	 2006 (Restated)
Changan Automobile Group Co. Ltd	17,200,918.00	7,855,091.00
Chongqing Changan Construction Co., Ltd	52,943,952.00	7,489,590.00
Chongqing HelpGo Information Technology Co., Ltd	19,255,948.84	14,611,455.00
Chongqing Jiangling Construction Co., Ltd	<u>32,559.00</u>	<u>1,847,158.00</u>
	<u>89,433,377.84</u>	<u>31,803,294.00</u>

Chongqing Changan Automobile Company Limited
Notes to Financial Statement (continued)
2007
(Expressed in Renminbi Yuan)

VIII. Related party relationships and transactions (continued)

4. Major transactions between the Group and its related parties (continued)

(3) Other major related-party transactions (continued):

<u>Payment of maintenance of information system development</u>	2007	2006 (Restated)
Chongqing HelpGo Information Technology Co., Ltd	<u>18,387,684.00</u>	<u>36,708,728.50</u>
<u>Payment of personnel funding</u>	2007	2006 (Restated)
Changan Automobile Group Co. Ltd	<u>-</u>	<u>3,757,785.00</u>
<u>Housing rental revenue</u>	2007	2006 (Restated)
Changan Automobile Group Co. Ltd	<u>4,346,800.00</u>	<u>4,346,800.00</u>
<u>Providing staff with technical supporting</u>	2007	2006 (Restated)
Changan Ford Mazda Engine Co., Ltd	<u>207,929.00</u>	<u>6,168,604.00</u>
<u>Royalties for technical commision</u>	2007	2006 (Restated)
Jiangling Holding Co., Ltd	30,977,289.79	30,000,000.00
Chongqing Changan Suzuki Automobile Co., Ltd	<u>13,129,256.34</u>	<u>8,033,490.22</u>
	<u>44,106,546.13</u>	<u>38,033,490.22</u>

Chongqing Changan Automobile Company Limited
Notes to Financial Statement (continued)
2007
(Expressed in Renminbi Yuan)

VIII. Related party relationships and transactions (continued)

4. Major transactions between the Group and its related parties (continued)

(3) Other major related-party transactions (continued):

<u>Repair Service</u>	2007	2006 (Restated)
Changan Ford Mazda Automobile Co., Ltd	<u>6,450,439.96</u>	<u>-</u>

<u>Import agent</u>	2007	2006 (Restated)
Changan Automobile Group Co. Ltd	<u>2,252,154.51</u>	<u>-</u>

(4) In 2007, The group paid for key management personnel salary RMB 5,023,991.00 (2006: RMB 4,935,600.00).

5. Amounts due from/to related parties

<u>Notes receivable</u>	2007	2006 (Restated)
Chongqing Changan Kuayue Vehicle Co., Ltd	-	4,730,000.00
Chongqing Wanyou Economic Development Co., Ltd	61,200,000.00	69,246,138.00
Southwest Industries Corporation	10,100,000.00	6,500,000.00
Chengdu Wanyou Economic Technological Development Co., Ltd	89,978,598.21	44,500,000.00
Chongqing Wanbin Material Co., Ltd	<u>-</u>	<u>6,187,931.00</u>
	<u>199,728,598.21</u>	<u>131,164,069.00</u>

Chongqing Changan Automobile Company Limited
Notes to Financial Statement (continued)
2007
(Expressed in Renminbi Yuan)

VIII. Related party relationships and transactions (continued)

5. Amounts due from/to related parties (continued)

	31 December 2007	31 December 2006 (Restated)
<u>Accounts receivable</u>		
Changan Automobile Group Co. Ltd	4,586,680.06	3,589,620.00
Chongqing Wanbin Material Co., Ltd	16,766,833.90	3,296,350.00
Chongqing Changan Kuayue Automobile Co., Ltd	25,735,030.00	17,538,710.00
Southwest Industries Corporation	17,937,566.32	-
Chongqing Dajiang Xinda Vehilcles Shares Co., Ltd	1,334,715.00	777,779.25
Chongqing Wanyou Economic Development Co., Ltd	-	3,163,357.00
Chengdu Wanyou Economic Technological Development Co., Ltd	67,058,328.86	27,980,748.00
Chongqing Changan Jinling Vehicles Parts Co., Ltd	32,156.00	177,525.00
Baoding Changan Car Manufacturing Co., Ltd	6,704,000.00	-
Jiangling Holding Co., Ltd	126,452,075.00	83,200,608.00
Changan Ford Mazda Automobile Co., Ltd	4,776,098.19	5,017,175.00
Chongqing Changan Suzuki Automobile Co., Ltd	62,260,841.86	49,503,413.73
Changan Ford Mazda Engine Co., Ltd	-	3,813,865.00
	<u>333,644,325.19</u>	<u>198,059,150.98</u>
	31 December 2007	31 December 2006 (Restated)
<u>Other receivable</u>		
Changan Ford Mazda Automobile Co., Ltd	3,105,268.23	7,627,730.00
Jiangling Holding Co., Ltd	<u>72,398,850.88</u>	<u>66,718,694.00</u>
	<u>75,504,119.11</u>	<u>74,346,424.00</u>

Chongqing Changan Automobile Company Limited
Notes to Financial Statement (continued)
2007
(Expressed in Renminbi Yuan)

VIII. Related party relationships and transactions (continued)

5. Amounts due from/to related parties (continued)

	31 December 2007	31 December 2006 (Restated)
<u>Pre-paid account</u>		
Changan Automobile Group Co. Ltd	1,132,332.00	51,040.00
Chongqing Changan Kuayue Automobile Co., Ltd	3,324,559.68	-
Changan Ford Mazda Automobile Co., Ltd	7,336,781.04	10,012,370.00
Chongqing Changan Suzuki Automobile Co., Ltd	477,360.00	-
Chongqing Changan Construction Co., Ltd	-	553,971.00
Chongqing Changan Jinling Vehicles Parts Co., Ltd	-	2,472,831.00
	<u>12,271,032.72</u>	<u>13,090,212.00</u>

	31 December 2007	31 December 2006 (Restated)
<u>Notes payable</u>		
Chengdu Lingchuan Vehicle Oil Tank Co., Ltd	1,200,000.00	-
Chengdu Lingchuan Special Industry Co., Ltd	5,500,000.00	4,900,000.00
Chengdu Wanyou Filter Co., Ltd	5,470,000.00	3,510,000.00
Hubei Xiaogan Huazhong Automobile Light Co., Ltd	10,230,000.00	8,240,000.00
Sichuan Hongguang Machinery and Electrics Co., Ltd	1,000,000.00	14,600,000.00
Chongqing Changan Kuayue Automobile Co., Ltd	1,450,000.00	-
Chongqing Changan Linyun Automobile Parts Co., Ltd	350,000.00	-
Chongqing Changrong Machine Co., Ltd	10,300,000.00	19,800,000.00
Chongqing Dajiang Xinda Vehicles Shares Co., Ltd	3,770,000.00	2,540,000.00

Chongqing Changan Automobile Company Limited
Notes to Financial Statement (continued)
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VIII. Related party relationships and transactions (continued)

5. Amounts due from/to related parties (continued)

	31 December 2007	31 December 2006 (Restated)
<u>Notes payable (continued)</u>		
Congqing Jiangda Aluminium Alloy Wheel Co., Ltd	3,460,000.00	8,700,000.00
Chongqing Jinhai Standard Parts Co., Ltd	3,100,000.00	-
Chongqing Xiyi Automobile Linkage Rod Co., Ltd	2,000,000.00	-
Chongqing Yihong Engineering Plastic Products Co., Ltd	4,760,000.00	9,100,000.00
Chongqing Shangfang Automobile Fittings Co., Ltd	5,000,000.00	7,500,000.00
CSIA-Chongqing Tsingshan Transmission Branch	38,600,000.00	-
Longchang Shanchuan Shock-absorbing Works Industries Co., Ltd	11,850,000.00	-
Chengdu Ningxing Automobile Spring Co., Ltd	150,000.00	-
Chongqing Shangfang Automobile Fittings Co., Ltd	26,590,000.00	-
South Yingte Air-conditioner Co., Ltd	15,210,000.00	-
Chongqing Automobile Air-conditioner Co., Ltd	11,930,000.00	-
Chongqing Dajiang Yuqiang Plastic Co., Ltd	-	1,000,000.00
South car Jian'an Axle Co., Ltd	-	28,800,000.00
	<u>161,920,000.00</u>	<u>108,690,000.00</u>

	31 December 2007	31 December 2006 (Restated)
<u>Accounts payable</u>		
Baoding Changan Car Manufacturing Co., Ltd	2,203,552.83	2,882,416.00
Changan Automobile Group Co. Ltd	-	65,682,006.66
Chengdu Lingchuan Vehicle Oil Tank Co., Ltd	751,312.64	1,016,220.82
Beijing Beiji Mechanical and Electrical Industry Co., Ltd	525,840.00	-
Chengdu Ningxing Automobile Spring Co., Ltd	467,790.51	-

Chongqing Changan Automobile Company Limited
Notes to Financial Statement (continued)
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(Expressed in Renminbi Yuan)

VIII. Related party relationships and transactions (continued)

5. Amounts due from/to related parties (continued)

	31 December 2007	31 December 2006 (Restated)
<u>Accounts payable (continued)</u>		
Chengdu Lingchuan Special Industry Co., Ltd	1,412,723.09	4,715,107.25
Chengdu Tianxin Instrument and Meter Co., Ltd	11,380,252.99	11,414,662.78
Chengdu Wanyou Economic Technological Development Co., Ltd	-	635,503.69
Chengdu Wanyou Filter Co., Ltd	2,403,878.42	2,035,645.12
Hubei Xiaogan Huazhong Automobile Light Co., Ltd	9,690,431.52	11,306,236.07
Sichuan Hongguang Machinery and Electrics Co., Ltd	8,271,025.00	15,172,554.00
Yunnan Xiyi Industries Co., Ltd	4,681,576.13	2,385,421.64
Chongqing Changan Kuayue Automobile Co., Ltd	13,296,574.00	4,441,657.59
Chongqing Changan Linyun Automobile Parts Co., Ltd	16,571,507.26	14,129,809.54
Chongqing Cahngan Automobile Fittings Main Plant	10,000.00	377,149.00
Chongqing Changrong Machine Co., Ltd	21,916,500.45	14,382,430.22
Chongqing Dajiang Millison Die-Casting Co., Ltd	1,487,368.93	665,595.17
Chongqing Dajiang Xinda Vehicles Shares Co., Ltd	1,188,615.20	282,541.25
Chongqing Dajiang Yuqiang Plastic Co., Ltd	158,490.43	2,171,806.34
Chongqing HelpGo Information Technology Co., Ltd	-	12,922,453.00
Chongqing Jianshe Automobile Air-conditioner Co., Ltd	19,485,312.59	12,847,096.00
Congqing Jiangda Aluminium Alloy Wheel Co., Ltd	5,321,091.89	6,683,923.25
Chongqing Jiangling Construction Co., Ltd	-	2,426,709.00
Chongqing Jinhai Standard Parts Co., Ltd	4,413,182.40	7,286,425.29
Chongqing Automobile Air-conditioner Co., Ltd	17,382,104.62	7,185,469.26
Chongqing Shanrui Automobile Components Co., Ltd	1,570,359.26	2,925,106.50

Chongqing Changan Automobile Company Limited
Notes to Financial Statement (continued)
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VIII. Related party relationships and transactions (continued)

5. Amounts due from/to related parties (continued)

	31 December 2007	31 December 2006 (Restated)
<u>Accounts payable (continued)</u>		
Chongqing Wanyou Economic Development Co., Ltd	13,486,956.29	6,606,983.00
Chongqing Xiyi Automobile Linkage Rod Co., Ltd	2,140,789.63	-
Chongqing Yihong Engineering Plastic Products Co., Ltd	798,785.83	1,707,888.12
Chongqing Shangfan Automobile Parts Co., Ltd	294,399.67	2,404,533.13
Changan Ford Mazda Automobile Co., Ltd	2,148,301.00	-
CSIA-Jian'an Automobile Bridge Branch	5,706,506.18	37,529,333.00
CSIA-Chongqing Tsingshan Transmission Branch	40,521,582.00	43,638,117.00
CSIANingjiang Shock-absorbing Works Branch	3,157,431.69	8,721,146.00
Chongqing Changan Jinling Vehicles Parts Co., Ltd	3,267,494.02	27,467,613.00
Longchang Shanchuan Shock-absorbing Works Industries Co., Ltd	3,022,652.79	8,282,604.00
Chongqing Changan Construction Co., Ltd	-	27,163,464.00
South Tianhe Chassis System Co., Ltd	34,485,716.10	20,034.00
South Yingte Air-conditioner Co., Ltd	6,201,655.18	-
Chongqing Changfeng Jiquan Machinery Co., Ltd	100,193.10	805,422.00
	<u>259,921,953.64</u>	<u>370,321,082.69</u>

Chongqing Changan Automobile Company Limited
Notes to Financial Statement (continued)
2007
(Expressed in Renminbi Yuan)

VIII. Related party relationships and transactions (continued)

5. Amounts due from/to related parties (continued)

	31 December 2007	31 December 2006
<u>Advances receipts</u>		
Chongqing Wanyou Vehicle Sales Service Co., Ltd	-	27,965,497.00
Changan Automobile Group Co. Ltd	19,601,065.27	46,100,274.00
Chengdu Wanyou Economic Technological Development Co., Ltd	3,508,453.82	103,555.00
Chongqing Changan Jinling Vehicles Parts Co., Ltd	-	11,080,000.00
Southwest Industries Corporation	3,384,942.44	-
Chongqing Wanyou Economic Development Co., Ltd	11,457,135.01	-
Chongqing Changan Kuayue Automobile Co., Ltd	2,714,000.00	-
Chongqing Wanbin Material Co., Ltd	2,427,503.00	4,111,130.00
Chongqing Changan Suzuki Automobile Co., Ltd	6,281,639.19	5,489,314.89
Chongqing Dajiang Xinda Vehiclces Shares Co., Ltd	<u>100,495.00</u>	<u>-</u>
	<u>49,475,233.73</u>	<u>94,849,770.89</u>

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VIII. Related party relationships and transactions (continued)

5. Amounts due from/to related parties (continued)

	31 December 2007	31 December 2006 (Restated)
<u>Other payables</u>		
Changan Automobile Group Co. Ltd	1,386,822.30	2,257,579.30
Chengdu Wanyou Economic Technological Development Co., Ltd	-	212,000.00
Chongqing HelpGo Information Technology Co., Ltd	6,931,372.48	1,778,987.90
Chongqing Jiangling Construction Co., Ltd	49,662.00	859,766.12
Chengdu Wanyou Filter Co., Ltd	120,000.00	-
Longchang Shanchuan Shock-absorbing Works Industries Co., Ltd	360,000.00	-
Baoding Changan Car Manufacturing Co., Ltd	<u>2,312,736.55</u>	<u>-</u>
	<u>11,160,593.33</u>	<u>5,108,333.32</u>

Amounts due from/to related parties are interest free and unsecured, with no fixed terms of repayment.

6. Cash saved in related parties

	2007	2006 (Restated)
China South Industry Group Finance Co., Ltd	<u>127,225,030.35</u>	<u>133,586,813.28</u>

7. Loans

	2007	2006
<u>Short-term loans</u>		
China South Industry Group Finance Co., Ltd	<u>58,700,000.00</u>	<u>41,700,000.00</u>
<u>Long-term loans</u>		
Changan Automobile Group Co. Ltd	<u>-</u>	<u>950,000,000.00</u>

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IX. Contingencies

As at the balance sheet date, the Group has no contingencies that need to be disclosed.

X. Leasing arrangement

According to the lease contract signed with the lessee, the minimum lease payment for a non-cancellable lease is as follows:

	2007	2006 (Restated)
Within one year (incl. one year)	32,940,718.47	132,148,272.00
One to two years (including two years)	28,950,964.21	26,278,779.00
Two to three years (including three years)	27,935,501.50	23,731,180.00
Over three years	<u>82,390,059.50</u>	<u>102,819,490.00</u>
	<u>172,217,243.68</u>	<u>284,977,721.00</u>

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XI. Commitments

	2007	2006
Capital commitments		
Contracted, but not provided for	<u>1,936,335,019.75</u>	<u>136,557,132.26</u>

XII. Analysis on financial instruments and their risks

Financial risk management objectives and policies

The Group's principal financial instruments comprise bank loans, bonds payables, cash, etc. The main purpose of these financial instruments is to raise finance for the Group's operations. The Group has various other financial assets and liabilities such as accounts receivable and accounts payable, which arise directly from its operations.

In both 2007 and 2006, the Group also enters into no derivative transactions.

The main risks arising from the Group's financial instruments are credit risk, liquidity risk and market risk. The Board of Directors reviews and agrees policies for managing these risks which are summarised below.

(1) Credit risk

Credit risk is the risk of loss on one party of a financial instrument, due to the failure of another party to meet its obligations.

The Group's credit risk mainly relates to accounts receivable. The Group trades only with recognized, creditworthy third parties. It is the Group's policy that all customers who wish to trade on credit terms are subject to credit verification procedures. In addition, receivable balances are monitored on an ongoing basis with the result that the Group's exposure to bad debts is not significant. For transactions that do not occur in the country of the relevant operating unit, the Group does not offer credit terms without the approval of the special department of credit control.

With respect to credit risk arising from the other financial assets of the Group, which comprise cash and cash equivalents, notes receivable and other receivables, the Group's exposure to credit risk arising from default of the counterparty, with a maximum exposure equal to the carrying amount of these instruments, listed as book value of financial assets in consolidated financial statements.

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XII. Analysis on financial instruments and their risks (Continued)

(1) Credit risk (Continued)

On 31 December, the amounts of the Group's financial assets not overdue or impaired, and the maturity profile of the Group's financial assets overdue but not impaired, are as follows:

2007

	Total	Not overdue or impaired	Overdue but not impaired			
			within 3 months	3 to 6 months	6 months to 1 year	Over 1 year
Account Receivable	627,507,785.64	534,979,940.61	92,172,242.33	19,923.45	175,913.25	159,766.00
Other Receivables	148,283,512.52	122,963,777.29	-	235,711.00	12,612,715.37	12,471,308.86
Notes Receivable	1,596,620,506.83	1,596,620,506.83	-	-	-	-

2006 (Restated)

	Total	Not overdue or impaired	Overdue but not impaired			
			within 3 months	3 to 6 months	6 months to 1 year	Over 1 year
Account Receivable	481,292,158.48	480,157,879.48	-	-	881,617.00	252,662.00
Other Receivables	160,121,689.66	129,085,275.14	5,437.08	18,537,398.44	-	12,493,579.00
Notes Receivable	2,031,021,202.00	2,031,021,202.00	-	-	-	-

(2) Liquidity risk

Liquidity risk is the potential that an enterprise is unable to raise enough funds, to repay the debts related to financial instruments. The liquidity risk may stem from the inability to sell financial assets at fair value as quickly as possible, the failure to repay the contracted debts by the counterparty, the early maturity of debts, or the failure to generate expected cash flows.

The Group's objective is to maintain a balance between continuity of funding and flexibility and sufficient cash to support operating capital through the use of bank loans, debentures, etc. The Group adopts a matchup between the maturity date of investment assets and that of correspondent debentures to control liquidity risk.

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XII. Analysis on financial instruments and their risks (Continued)

(2) Liquidity risk

The table below summarises the maturity profile of the Group's financial assets at 31 December 2007 and 31 December 2006 based on the length of time before the maturity date:

2007

	Book value	Amount of contractual undiscounted receipts	Less than 1 month	1 to 3 months	3 to 12 months
Cash and cash equivalents	1,583,706,500.04	1,583,706,500.04	1,526,216,672.54	2,000,000.00	55,489,827.50
Notes receivable	1,596,620,506.83	1,596,620,506.83	-	836,425,969.44	760,194,537.39
Accounts receivable	698,386,639.62	698,386,639.62	-	601,301,501.36	97,085,138.26
Other Receivables	150,730,002.93	150,730,002.93	-	6,115,509.32	144,614,493.61
	<u>4,029,443,649.42</u>	<u>4,029,443,649.42</u>	<u>1,526,216,672.54</u>	<u>1,445,842,980.12</u>	<u>1,057,383,996.76</u>

2006 (Restated)

	Book value	Amount of contractual undiscounted receipts	Less than 1 month	1 to 3 months	3 to 12 months
Cash and cash equivalents	1,822,352,844.83	1,822,352,844.83	1,783,843,050.26	19,930,000.00	18,579,794.57
Notes receivable	2,031,021,202.00	2,031,021,202.00	-	1,561,070,914.00	469,950,288.00
Accounts receivable	486,109,473.03	486,109,473.03	-	195,026,658.16	291,082,814.87
Other Receivables	171,706,208.62	171,706,208.62	164,516,580.32	5,206,353.10	1,983,275.20
	<u>4,511,189,728.48</u>	<u>4,511,189,728.48</u>	<u>1,948,359,630.58</u>	<u>1,781,233,925.26</u>	<u>781,596,172.64</u>

The table below summarises the maturity profile of the Group's financial liabilities at 31 December 2007 and 31 December 2006 based on the length of time before the maturity date:

2007

	Book value	Amount of contractual undiscounted receipts	Less than 1 month	1 to 3 months	3 to 12 months	1 to 5 years	Over 5 years
Cash in Bank	175,700,000.00	175,700,000.00	-	175,700,000.00	-	-	-
Employee compensation payable	106,425,055.26	106,425,055.26	106,425,055.26	-	-	-	-
Notes Payable	1,389,450,000.00	1,389,450,000.00	-	23,950,000.00	1,365,500,000.00	-	-
Accounts Payable	2,791,066,484.98	2,791,066,484.98	-	2,537,470,745.63	253,595,739.35	-	-
Other Payables	339,937,992.19	339,937,992.19	314,176,437.41	25,761,554.78	-	-	-
Short-term Debentures	513,680,000.00	513,680,000.00	-	513,680,000.00	-	-	-
Other liabilities (Retirement benefit obligations)	43,754,000.00	43,754,000.00	2,054,000.00	-	-	38,316,000.00	-
	<u>5,360,013,532.43</u>	<u>5,360,013,532.43</u>	<u>422,655,492.67</u>	<u>3,100,862,300.41</u>	<u>1,794,795,739.35</u>	<u>38,316,000.00</u>	<u>-</u>

2006 (Restated)

	Book value	Amount of contractual undiscounted receipts	Less than 1 month	1 to 3 months	3 to 12 months	1 to 5 years	Over 5 years
Cash in Bank	1,108,500,000.00	1,108,500,000.00	-	48,500,000.00	110,000,000.00	900,000,000.00	50,000,000.00
Accounts Payable	2,023,028,690.57	2,023,028,690.57	-	1,024,043,575.57	998,985,115.00	-	-
Notes Payable	1,724,580,000.00	1,724,580,000.00	-	1,065,410,000.00	659,170,000.00	-	-
Other Payables	774,785,500.97	774,785,500.97	756,450,707.97	18,334,793.00	-	-	-
Employee compensation payable	132,722,130.74	132,722,130.74	132,722,130.74	-	-	-	-
Short-term Debentures	512,060,000.00	512,060,000.00	-	512,060,000.00	-	-	-
Other liabilities (Retirement benefit obligations)	31,924,781.00	31,924,781.00	2,034,063.00	-	-	29,890,718.00	-
	<u>6,307,601,103.28</u>	<u>6,305,567,040.28</u>	<u>891,206,901.71</u>	<u>2,668,348,368.57</u>	<u>1,768,155,115.00</u>	<u>929,890,718.00</u>	<u>50,000,000.00</u>

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XII. Analysis on financial instruments and their risks (Continued)

(3) Market risk

Market risk is the risk that the fair values or future cash flows of financial instruments will fluctuate due to changes in market prices. Market risks mainly include interest rate risk and foreign currency risk.

Interest rate risk

Floating rate instruments expose the Group to cash flow interest rate risk, and fixed rate instruments expose the Group to fair value interest rate risk.

The table below lists the book values of, financial instruments exposed to interest rate risks, which are presented according to contractual agreements/the estimated revaluation date or maturity date (the earlier of these two dates):

31 December 2007

	Within 1 year	1 to 2 years	2 to 3 years	3 to 4 years	4 to 5 years	Over 5 years	Total
Fixed interest rate							
Bank loans	175,700,000.00	-	-	-	-	-	175,700,000.00
Financial liabilities held for trading	513,680,000.00	-	-	-	-	-	513,680,000.00
Floating interest rate							
Cash and cash equivalents	1,583,706,500.04	-	-	-	-	-	1,583,706,500.04

31 December 2006

	Within 1 year	1 to 2 years	2 to 3 years	3 to 4 years	4 to 5 years	Over 5 years	Total
Fixed interest rate							
Bank loans	158,500,000.00	-	-	-	-	-	158,500,000.00
Financial liabilities held for trading	512,060,000.00	-	-	-	-	-	512,060,000.00
Floating interest rate							
Cash and cash equivalents	1,822,352,844.83	-	-	-	-	-	1,822,352,844.83
Bank Loans	950,000,000.00	77,900,000.00	400,000,000.00	372,100,000.00	50,000,000.00	50,000,000.00	950,000,000.00

XII. Analysis on financial instruments and their risks (Continued)

(3) Market risk (Continued)

Interest rate risk (Continued)

With respect to floating rate financial instruments, their interest rates will be redetermined within an interval of not less than one year. With respect to fixed rate financial instruments, their interest rates will have been fixed during the period before the maturity date. Other financial instruments that are not included in the above table are not interest bearing, so no interest rate risk is involved.

Management holds the view that the effects on the total profit of the Group is not significant when there are reasonable and potential changes in interest rates, under the presumption that other variables remain unchanged,.

Foreign currency risk

Foreign currency risk is the risk that the fair values and future cash flows of financial instruments will fluctuate due to changes in foreign exchange rates.

The Group has transactional currency exposures. Such exposures arise from sales or purchases by operating units in currencies other than the units' functional currency.

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XII. Analysis on financial instruments and their risks (Continued)

(3) Market risk (Continued)

Foreign currency risk (Continued)

The table below lists, the book values and foreign currency risk exposures of, financial instruments classified based on currency:

	31 December 2007			31 December 2006 (Restated)			
	RMB	USD translated into RMB	Total	RMB	USD translated into RMB	JPY translated into RMB	Total
Cash	1,565,849,758.88	17,856,741.16	1,583,706,500.04	1,819,359,654.46	2,965,965.71	27,224.66	1,822,352,844.83
Accounts Receivable	<u>553,770,219.95</u>	<u>144,616,419.67</u>	<u>698,386,639.62</u>	<u>344,826,275.12</u>	<u>141,283,197.91</u>	-	<u>486,109,473.03</u>
	<u>2,119,619,978.83</u>	<u>162,473,160.83</u>	<u>2,282,093,139.66</u>	<u>2,164,185,929.58</u>	<u>144,249,163.62</u>	<u>27,224.66</u>	<u>2,308,462,317.86</u>

The following are the main exchange rates adopted by the Group:

RMB	Average exchange rate		Exchange rate at the end of the year	
	2007	2006	31 Dec 2007	31 Dec 2006
USD	7.5567	7.9394	7.3046	7.8087
JPY	0.0649	0.0672	0.0641	0.0656

Management holds the view that the effects on the total profit is not significant when there are reasonable and potential changes in USD exchange rates, under the presumption that other variables remain unchanged.

Fair value

There are no significant differences between cash and cash equivalents as well as the fair value of financing instruments, and their corresponding book values.

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XIII. Events after the balance sheet date

- 1、 On 10 January 2008, the company held the Board's thirteenth meeting in its fourth row. The meeting approved the proposal regarding 'Increasing shares of RMB 500,000,000.00 into Jiangling Holding Co., Ltd'. The company increases shares in the joint venture of Jiangling Holding Co., Ltd (Simply as 'Jiangling Holding') by cash at hand worth RMB 500,000,000.00. When the addition of shares is completed, the registered capital of Jiangling Holding becomes RMB 2,000,000,000.00, and the proportion of equity remains unchanged. By 15 January 2008, the Company has paid full amount of increasing capital, and relevant industrial and commercial registration is in progress.
- 2、 On 14 February 2008, the company held the Board's fifteenth meeting in its fourth row. The meeting approved the proposal regarding 'Increasing shares into Changan Ford Mazda Automobile Co., Ltd'. The company increases shares in the joint venture of Changan Ford Auto by cash at hand worth USD 29,000,000.00. When the addition of shares is completed, the registered capital of Changan Ford Auto rises from USD 293,439,000.00 to USD 351,439,000.00. The issue was approved by State funding to the Ministry of Commerce approved on the 16th [2008], regarding 'Reply of consent from Commercial Administration of capital increase in Changan Ford Mazda Automobile Co., Ltd'. The proportion of equity remains unchanged. By 20 February 2008, the Company has paid full amount of increasing capital, and relevant industrial and commercial registration is in progress.
- 3、 On 24 March 2008, the Company holds the fourth board of directors' 16th conference and adopts "the proposal about increasing funds of RMB 65,500,000.00 to Chongqing Changan Automobile mold Co., Ltd.

XIV. Other important events

On 23 November 2007, the company held the Board's eleventh meeting in its fourth row. The meeting approved the proposal regarding 'Security exchange of increased capital in Chongqing Changjiang Water Transportation Co. Ltd with its ownership of South-west Security (totally RMB 25,000,000.00). When the absorption is completed, the Company becomes one shareholder of Water Transportation Company, with an ownership of 27,500,000 share capitals at the proportion of 0.977% of total share capitals.

Absorption over the merger was still entitled to the China Securities Regulatory Commission or other departments' approval.

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XV. Notes to the corporate financial statements

1. Cash and cash equivalents

	2007 RMB	2006 RMB (Restated)
Cash in bank		
— RMB	1,169,325,053.21	1,208,038,812.00
Other cash		
— RMB	-	95,000,000.00
Cash	1,169,325,053.21	1,303,038,812.00
Less: Cash restricted	<u>-</u>	<u>95,000,000.00</u>
Cash and cash equivalent	<u>1,169,325,053.21</u>	<u>1,208,038,812.00</u>

Restriction on ownership of assets due to other reasons

	2007	2006 (Restated)
Deposit for loans	<u>-</u>	<u>95,000,000.00</u>

Interest income earned on current deposits is calculated by using current deposit interest rate.

2. Notes receivable

	2007	2006 (Restated)
Bank acceptance	1,243,232,731.87	1,711,603,889.00
Trade acceptance	<u>1,600,000.00</u>	<u>127,421,819.00</u>
	<u>1,244,832,731.87</u>	<u>1,839,025,708.00</u>

On 31 December 2007, within the aforesaid balance, there is no amount due from shareholders that hold 5% or more of the Company's voting shares (2006: nil).

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XV. Notes to the corporate financial statements (continued)

3. Accounts receivable

The credit period is generally one month, extending up to three months for major customers with good credit records. Trade receivables are non-interest-bearing.

An aged analysis of the accounts receivable as at the balance sheet date is as follows:

	2007	2006 (Restated)
Within 1 year	835,087,026.68	1,168,307,919.00
1 to 2 years	256,798,557.00	193,478,613.00
2 to 3 years	185,373,724.00	14,702,330.00
Over 3 years	<u>2,107,663.00</u>	<u>2,475,981.00</u>
	<u>1,279,366,970.68</u>	<u>1,378,964,843.00</u>

	2007			
	Amount	Percentage (%)	Bad debt provision	Provision rate(%)
Individually significant items	1,333,225,371.77	98.76	65,744,888.00	4.93
Group of individually insignificant items with similar credit risk characteristics, that has significant risk	16,252,221.00	1.20	4,861,884.00	29.92
Other insignificant items	<u>496,149.91</u>	<u>0.04</u>	-	-
Total	<u>1,349,973,742.68</u>	<u>100.00</u>	<u>70,606,772.00</u>	

	2006 (Restated)			
	Amount	Percentage (%)	Bad debt provision	Provision rate(%)
Individually significant items	1,444,767,327.34	99.42	68,416,289.00	4.74
Group of individually insignificant items with similar credit risk characteristics, that has significant risk	8,485,748.66	0.58	5,871,944.00	69.20
Other insignificant items	-	-	-	-
Total	<u>1,453,253,076.00</u>	<u>100.00</u>	<u>74,288,233.00</u>	

As to individually significant items of accounts receivable, which are analyzed respectively, if they are impaired proved by objective evidence, the provision is made according to the receivability.

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XV. Notes to the corporate financial statements (continued)

3. Accounts receivable (continued)

The individually significant accounts receivable is analysed individually. If there is any evidence proving them devalued, the provision will be raised according to the recoverability.

Items which are individually insignificant but significant as a group are identified as Group of individually insignificant items with similar credit risk characteristics that has significant risk.

Changes in provision for bad debts are as follows:

	At beginning of year	Addition		Reversal	Decrease		At year end
		Provision	Other addition		Write-off	Other decrease	
2007	<u>74,288,233.00</u>	<u>-</u>	<u>-</u>	<u>3,661,463.00</u>	<u>19,998.00</u>	<u>-</u>	<u>70,606,772.00</u>
2006 (Restated)	<u>78,706,732.00</u>	<u>-</u>	<u>-</u>	<u>4,418,499.00</u>	<u>-</u>	<u>-</u>	<u>74,288,233.00</u>

A part of provision reversed is due to the receipt of the accounts receivable in this year.

	2007	2006 (Restated)
Top five debtors, in aggregate	<u>864,176,897.36</u>	<u>942,695,161.95</u>
Percentage	64.01%	64.87%
Aging	Within 1 year	Within 1 year

On 31 December 2007, within the aforesaid balance, there is no amount due from shareholders that hold 5% or more of the Group's voting shares. (2006: nil)

4. Prepayments

An aged analysis of the prepayments as at the balance sheet date is as follows:

	2007		2006	
	Carrying amount	Percentage(%)	Carrying amount (Restated)	Percentage(%)
Within 1 year	311,057,519.25	96.97	168,423,469.00	93.92
1 to 2 years	9,709,168.06	3.03	10,725,406.00	5.98
2 to 3 years	<u>-</u>	<u>-</u>	<u>174,450.00</u>	<u>0.10</u>
	<u>320,766,687.31</u>	<u>100.00</u>	<u>179,323,325.00</u>	<u>100.00</u>

On 31 December 2007, within the aforesaid balance, there is no amount due from shareholders that hold 5% or more of the Group's voting shares. (2006: nil).

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XV. Notes to the corporate financial statements (continued)

5. Other receivables

An aged analysis of the other receivables as at the balance sheet date is as follows:

	2007	2006 (Restated)
Within 1 year	205,195,802.27	111,039,609.58
1 to 2 years	10,310,343.00	1,102,702.00
2 to 3 years	531,000.00	1,314,090.00
Over 3 years	<u>1,700,065.00</u>	<u>935,860.42</u>
	<u>217,737,210.27</u>	<u>114,392,262.00</u>

	2007			
	Amount	Percentage (%)	Bad debt provision	Provision rate(%)
Individually significant items	232,750,104.59	100.00%	15,012,894.32	6.45%
Group of individually insignificant items with similar credit risk characteristics, that has significant risk	-	-	-	-
Other insignificant items	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
	<u>232,750,104.59</u>	<u>100.00%</u>	<u>15,012,894.32</u>	

	2006 (Restated)			
	Amount	Percentage (%)	Bad debt provision	Provision rate(%)
Individually significant items	128,844,067.00	100.00%	14,451,805.00	11.22%
Group of individually insignificant items with similar credit risk characteristics, that has significant risk	-	-	-	-
Other insignificant items	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
	<u>128,844,067.00</u>	<u>100.00%</u>	<u>14,451,805.00</u>	

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XV. Notes to the corporate financial statements (continued)

5. Other receivables (continued)

Items which are individually insignificant but significant as a group are identified as Group of individually insignificant items with similar credit risk characteristics that has significant risk.

The individually significant accounts receivable is analysed individually. If there is any evidence proving them devalued, the provision will be raised according to the recoverability.

On 31 Dec 2007, the amount of RMB 11,805,718.00 in individually significant other receivables is made full provision due to long-term irrecoverability.

Changes in provision for bad debts are as follows:

	At beginning of year	Addition		Decrease		At year end
		Provision	Other addition	Reversal	Write-off	
2007	<u>14,451,805.00</u>	<u>1,248,139.32</u>	<u> -</u>	<u> -</u>	<u>687,050.00</u>	<u>15,012,894.32</u>
2006 (Restated)	<u>2,729,253.00</u>	<u>11,722,552.00</u>	<u> -</u>	<u> -</u>	<u> -</u>	<u>14,451,805.00</u>
					2007	2006
Top five debtors, in aggregate					<u>227,425,850.87</u>	<u>102,592,563.00</u>
Percentage					97.71%	79.63%
Ageing					within 2 years	within 2 years

On 31 December 2007, within the aforesaid balance, there is no amount due from shareholders that hold 5% or more of the Group's voting shares. (2006: nil).

6. Inventory

	2007	2006 (Restated)
Raw materials	71,356,052.00	44,821,197.60
Materials in transit	60,876,280.00	24,863,395.00
Work in progress	50,735,864.00	75,843,338.00
Finished goods	748,335,251.00	410,535,873.05
Consumables	33,881,974.00	38,047,210.00
Less: provision	<u>22,598,677.00</u>	<u>8,746,326.65</u>
	<u>942,586,744.00</u>	<u>585,364,687.00</u>

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XV. Notes to the corporate financial statements (continued)

6. Inventory (continued)

Changes in provision for decline in value of inventory are as follow:

	At beginning of year	Provision	Decrease		At year end
			Reversal	Written-off	
2007					
Raw materials	1,929,189.83	-	407,903.68	-	1,521,286.15
Consumables	-	223,010.00	-	-	223,010.00
Finished goods	<u>6,817,136.82</u>	<u>14,037,244.03</u>	<u>-</u>	<u>-</u>	<u>20,854,380.85</u>
	<u>8,746,326.65</u>	<u>14,260,254.03</u>	<u>407,903.68</u>	<u>-</u>	<u>22,598,677.00</u>
2006 (Restated)					
Raw materials	1,310,890.30	618,299.53	-	-	1,929,189.83
Finished goods	<u>8,326,335.00</u>	<u>-</u>	<u>1,509,198.18</u>	<u>-</u>	<u>6,817,136.82</u>
	<u>9,637,225.30</u>	<u>618,299.53</u>	<u>1,509,198.18</u>	<u>-</u>	<u>8,746,326.65</u>

At the balance sheet date, the finished goods is stated at the lower of cost and net realizable value. If the cost is higher than the net realizable value, provision for the inventory should be made through profit or loss. If factors that resulted in the provision for the finished goods have disappeared and made the net realizable value higher than their book value, the amount of the write-down should be reversed, to the extent of the amount of the provision for the finished goods.

To meet the financing needs of distributors, companies, banks and auto sales dealers signed tripartite financial network services agreement. According to the agreement, the Company will consign vehicles to dealers, distributors granted by the provisions of letters from the bank to apply for a cycle of non-commitment to the financing of the Company to pay. At the same time, the Company signed the pledge agreement to pledge the vehicles consigned to the dealers to the bank, and dealers undertake the above-mentioned financing interest rates.

On 31 December 2007, the Company pledged the finished goods whose book value amounted to RMB 259,927,214.00 (2006: RMB 96,547,520.00).

7. Long-term equity investments

	Initial amount	At beginning of year	Increase	Decrease	Incl: cash dividend of the Year	At year end
2007						
Cost method:	416,504,135.00	950,351,915.00	55,007,941.00	61,725,246.00	-	943,634,610.00
Equity method:	747,875,191.00	3,802,700,870.00	944,807,138.53	684,000,000.00	684,000,000.00	4,063,508,008.53
Less: impairment	-	<u>27,120,000.00</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>27,120,000.00</u>
		<u>4,725,932,785.00</u>	<u>999,815,079.53</u>	<u>745,725,246.00</u>	<u>684,000,000.00</u>	<u>4,980,022,618.53</u>

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XV. Notes to the corporate financial statements (continued)

7. Long-term equity investments (continued)

On 31 December 2007, Cost method of Long-term equity investments is list as follows:

	Initial amount	At beginning of year	Increase	Decrease	At year end
Nanjing Changan Automobile Co.,Ltd	52,350,000.00	396,308,659.00	3,126,600.00	-	399,435,259.00
Hebei Changan Automobile Co.,Ltd	36,416,900.00	206,065,636.00	1,221,600.00	-	207,287,236.00
Chongqing Changan Automobile Import and Export Co.,Ltd	9,500,000.00	13,068,580.00	-	-	13,068,580.00
Chongqing Changan Service Co.,Ltd	29,700,000.00	29,700,000.00	-	-	29,700,000.00
Chongqing Anfu Automobile Co.,Ltd	16,000,000.00	16,000,000.00	-	-	16,000,000.00
Chongqing Changan Sales Offices	48,500,000.00	48,500,000.00	-	-	48,500,000.00
Chongqing Changan Automobile Sales Subsidiaries	27,294,200.00	94,625,746.00	-	61,725,246.00	32,900,500.00
Chongqing Changan Sepecial-purpose Vehicle Sales Co.,Ltd	2,500,000.00	2,500,000.00	-	-	2,500,000.00
Changan Automobile Europe Design Center Co.,Ltd	974,020.00	974,020.00	-	-	974,020.00
Chongqing Changan Automobile Mould Co.,Ltd	50,659,741.00	-	50,659,741.00	-	50,659,741.00
South-western Securities Co., Ltd.	50,000,000.00	50,000,000.00	-	-	50,000,000.00
Chongqing Changan Jinling Vehicles Parts Co., Ltd.	2,900,000.00	2,900,000.00	-	-	2,900,000.00
Chongqing International Golf Club Co., Ltd.	4,900,000.00	4,900,000.00	-	-	4,900,000.00
China South Industry Group Finance Co., Ltd	80,000,000.00	80,000,000.00	-	-	80,000,000.00
Chongqing Ante Import and Export Co.,Ltd	3,000,000.00	3,000,000.00	-	-	3,000,000.00
Sichuan Glass Co.,Ltd	1,809,274.00	1,809,274.00	-	-	1,809,274.00
	<u>416,504,135.00</u>	<u>950,351,915.00</u>	<u>55,007,941.00</u>	<u>61,725,246.00</u>	<u>943,634,610.00</u>

On 31 December 2007, Equity method of Long-term equity investments is list as follows:

Name	Shareholding Percentage	Initial investment	Accumulated additional Investment	Equity adjustment				Year end balance	
				Changes in current year profit/loss	Cash dividend received in current year	Disposal in current year	Accumulated changes in profit/loss		Provision current year
Joint Ventures:									
Chongqing Changan Suzuki Automobile Co., Ltd.	51%	239,905,266.00	-	61,143,595.45	-	-	914,144,394.45	-	-1,154,049,660.45
Jiangling Holding Co., Ltd.	50%	50,000,000.00	450,000,000.00	43,115,337.00	-	-	63,201,546.86	-	2,669,322.00
Changan Ford Mazda Automobile Co., Ltd.	50%	210,901,925.00	976,997,992.00	947,787,462.26	684,000,000.00	-	874,861,697.40	-	19,375,055.00
Changan Ford Mazda Engine Co., Ltd.	50%	242,568,000.00	314,724,960.00	(149,308,939.63)	-	-	(302,895,498.63)	-	-
Associates:									
Chongqing HelpGo Information Technology Co., Ltd.	21.43%	4,500,000.00	-	1,196,543.45	-	-	2,553,348.45	-	-
		<u>747,875,191.00</u>	<u>1,741,722,952.00</u>	<u>903,933,998.53</u>	<u>684,000,000.00</u>		<u>1,551,865,488.53</u>		<u>22,044,377.00</u>
									<u>4,063,508,008.53</u>

2006 (Restated)

	Initial amount	At beginning of year	Increase	Decrease	Incl: cash dividend of the year	At year end
Cost method:	365,844,394.00	943,559,910.00	6,792,005.00	-	-	950,351,915.00
Equity method:	747,875,191.00	2,653,798,424.00	1,568,902,446.00	420,000,000.00	420,000,000.00	3,802,700,870.00
Less: impairment		27,120,000.00	-	-	-	27,120,000.00
		<u>3,570,238,334.00</u>	<u>1,575,694,451.00</u>	<u>420,000,000.00</u>	<u>420,000,000.00</u>	<u>4,725,932,785.00</u>

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XV. Notes to the corporate financial statements (continued)

7. Long-term equity investments (continued)

On 31 December 2006, Cost method of Long-term equity investments is list as follows (Restated):

	Initial amount	At beginning of year	Increase	Decrease	At year end
Nanjing Changan Automobile Co.,Ltd	52,350,000.00	396,308,659.00	-	-	396,308,659.00
Hebei Changan Automobile Co.,Ltd	36,416,900.00	204,692,362.00	1,373,274.00	-	206,065,636.00
Chongqing Changan Automobile Import and Export Co.,Ltd	9,500,000.00	13,068,580.00	-	-	13,068,580.00
Chongqing Changan Service Co.,Ltd	29,700,000.00	29,700,000.00	-	-	29,700,000.00
Chongqing Anfu Automobile Co.,Ltd	16,000,000.00	16,000,000.00	-	-	16,000,000.00
Chongqing Changan Sales Offices	48,500,000.00	48,500,000.00	-	-	48,500,000.00
Chongqing Changan Automobile Sales Subsidiaries	27,294,200.00	93,181,035.00	1,444,711.00	-	94,625,746.00
Chongqing Changan Sepecial-purpose Vehicle Sales Co.,Ltd	2,500,000.00	2,500,000.00	-	-	2,500,000.00
Changan Automobile Europe Design Center Co.,Ltd	974,020.00	-	974,020.00	-	974,020.00
South-western Securities Co., Ltd.	50,000,000.00	50,000,000.00	-	-	50,000,000.00
Chongqing Changan Jinling Vehicles Parts Co., Ltd.	2,900,000.00	2,900,000.00	-	-	2,900,000.00
Chongqing International Golf Club Co., Ltd.	4,900,000.00	4,900,000.00	-	-	4,900,000.00
China South Industry Group Finance Co., Ltd	80,000,000.00	80,000,000.00	-	-	80,000,000.00
Chongqing Ante Import and Export Co.,Ltd	3,000,000.00	-	3,000,000.00	-	3,000,000.00
Sichuan Glass Co.,Ltd	1,809,274.00	1,809,274.00	-	-	1,809,274.00
	<u>365,844,394.00</u>	<u>943,559,910.00</u>	<u>6,792,005.00</u>	<u>-</u>	<u>950,351,915.00</u>

On 31 December 2006, Equity method of Long-term equity investments is list as follows (Restated):

Name	Shareholding Percentage	Initial investment	Accumulated additional Investment	Changes in current year profit/loss	Cash dividend received in current year	Equity adjustment		Provision		Year end balance
						Disposal in current year	Accumulated changes in profit/loss	current yaer	Accumulated	
Chongqing Changan Suzuki Automobile Co., Ltd.	51%	239,905,266.00	-	95,790,696.00	-	853,000,799.00	-	-	-	-1,092,906,065.00
Jiangling Holding Co., Ltd.	50%	50,000,000.00	450,000,000.00	(8,228,369.00)	-	20,086,209.00	2,660,073.00	2,669,322.00	522,755,531.00	522,755,531.00
Changan Ford Mazda Automobile Co., Ltd.	50%	210,901,925.00	936,124,852.00	600,906,271.00	(420,000,000.00)	-	611,074,236.00	400,555.00	19,375,055.00	1,777,476,068.00
Changan Ford Mazda Engine Co., Ltd.	50%	242,568,000.00	314,724,960.00	(138,194,522.00)	-	-	(153,586,559.00)	-	-	403,706,401.00
Chongqing HelpGo Information Technology Co., Ltd	21.43%	4,500,000.00	-	746,532.00	-	-	1,356,805.00	-	-	5,856,805.00
		<u>747,875,191.00</u>	<u>1,700,849,812.00</u>	<u>551,020,608.00</u>	<u>(420,000,000.00)</u>	<u>-</u>	<u>1,331,931,490.00</u>	<u>3,060,628.00</u>	<u>22,044,377.00</u>	<u>3,802,700,870.00</u>

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XV. Notes to the corporate financial statements (continued)

7. Long-term equity investments (continued)

Impairment provision:

2007

	At beginning of year	Increase	Decrease	At year end
Cost method				
South-western Securities Co., Ltd.	<u>27,120,000.00</u>	<u>-</u>	<u>-</u>	<u>27,120,000.00</u>

2006 (Restated)

	At beginning of year	Increase	Decrease	At year end
Cost method				
South-western Securities Co., Ltd.	<u>27,120,000.00</u>	<u>-</u>	<u>-</u>	<u>27,120,000.00</u>

The major financial information of joint ventures and associates of the Group refers to Notes VI, 8.

8. Fixed asset

2007

	Buildings	Machinery	Vehicles	Other equipments	Total
Original price:					
Opening balance	918,484,545.00	2,354,616,552.00	24,014,595.00	1,208,900,850.00	4,506,016,542.00
Acquisition	-	-	-	-	-
Transferred from construction in progress	65,032.00	39,762,970.92	3,745,640.00	61,034,702.00	104,608,344.92
Deduction due to investment	-	73,401,274.00	395,438.00	8,223,936.00	82,020,648.00
Disposal and write-off	298,297.00	27,729,856.00	1,739,844.48	60,456,130.00	90,224,127.48
Closing balance	<u>918,251,280.00</u>	<u>2,293,248,392.92</u>	<u>25,624,952.52</u>	<u>1,201,255,486.00</u>	<u>4,438,380,111.44</u>
Accumulated depreciation:					
Opening balance	165,715,604.00	801,695,472.00	11,983,202.00	381,736,412.00	1,361,130,690.00
Provision	29,764,835.00	203,680,706.00	2,862,075.00	90,546,435.00	326,854,051.00
Deduction due to investment	-	46,397,570.00	325,665.67	5,067,788.00	51,791,023.67
Write-off	25,490.19	21,797,360.00	1,394,410.85	30,119,763.71	53,337,024.75
Closing balance	<u>195,454,948.81</u>	<u>937,181,248.00</u>	<u>13,125,200.48</u>	<u>437,095,295.29</u>	<u>1,582,856,692.58</u>
Impairment provision:					
Opening balance	-	-	-	-	-
Provision	-	13,417,810.14	-	21,547,382.86	34,965,193.00
Write-off	-	-	-	20,895,165.00	20,895,165.00
Closing balance	<u>-</u>	<u>13,417,810.14</u>	<u>-</u>	<u>652,217.86</u>	<u>14,070,028.00</u>
Book value:					
Opening balance	<u>752,768,941.00</u>	<u>1,552,921,080.00</u>	<u>12,031,393.00</u>	<u>827,164,438.00</u>	<u>3,144,885,852.00</u>
Closing balance	<u>722,796,331.19</u>	<u>1,342,649,334.78</u>	<u>12,499,752.04</u>	<u>763,507,972.85</u>	<u>2,841,453,390.86</u>

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Notes to Financial Statement (continued)
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XV. Notes to the corporate financial statements (continued)

8. Fixed asset (continued)

2006 (Restated)

	Buildings	Machinery	Vehicles	Other equipments	Total
Original price:					
Opening balance	889,657,415.00	2,068,092,396.00	28,511,911.00	758,924,865.00	3,745,186,587.00
Acquisition	-	110,785,122.00	-	290,158,538.00	400,943,660.00
Transferred from construction in progress	29,221,670.00	202,309,723.00	1,005,641.00	167,347,565.00	399,884,599.00
Disposal and write-off	394,540.00	26,570,689.00	5,502,957.00	7,530,118.00	39,998,304.00
Closing balance	<u>918,484,545.00</u>	<u>2,354,616,552.00</u>	<u>24,014,595.00</u>	<u>1,208,900,850.00</u>	<u>4,506,016,542.00</u>
Accumulated depreciation:					
Opening balance	136,942,960.00	617,893,966.00	13,357,240.00	300,690,065.00	1,068,884,231.00
Provision	29,037,647.00	188,451,002.00	2,660,397.00	85,284,065.00	305,433,111.00
Write-off	265,003.00	4,649,496.00	4,034,435.00	4,237,718.00	13,186,652.00
Closing balance	<u>165,715,604.00</u>	<u>801,695,472.00</u>	<u>11,983,202.00</u>	<u>381,736,412.00</u>	<u>1,361,130,690.00</u>
Impairment provision:					
Opening balance	-	-	-	-	-
Closing balance	-	-	-	-	-
Book value:					
Opening balance	<u>752,714,455.00</u>	<u>1,450,198,430.00</u>	<u>15,154,671.00</u>	<u>458,234,800.00</u>	<u>2,676,302,356.00</u>
Closing balance	<u>752,768,941.00</u>	<u>1,552,921,080.00</u>	<u>12,031,393.00</u>	<u>827,164,438.00</u>	<u>3,144,885,852.00</u>

On 31 December 2007, no buildings (2006: nil) have been pledged as security for bank loans to the Company.

On 31 December 2007, the carrying value of other equipments laid idle is RMB 14,070,028.00. These are made full provision. (2006: nil)

The net book value of the fixed assets fully depreciated but still in used are as follow:

	Buildings	Machinery	Vehicles	Other equipments	Total
31 December 2007					
Original price	<u>12,231,819.71</u>	<u>170,402,911.00</u>	<u>2,093,627.86</u>	<u>19,736,116.00</u>	<u>204,464,474.57</u>
Book value	<u>366,954.59</u>	<u>5,112,087.33</u>	<u>62,808.84</u>	<u>592,083.48</u>	<u>6,133,934.24</u>
31 December 2006 (Restated)					
Original price	<u>8,249,630.00</u>	<u>60,311,275.00</u>	<u>2,954,425.00</u>	<u>12,042,676.00</u>	<u>83,558,006.00</u>
Book value	<u>247,488.90</u>	<u>1,809,338.25</u>	<u>88,632.75</u>	<u>361,280.28</u>	<u>2,506,740.18</u>

The net book value of buildings, whose property certificates are in progress, is RMB 34,106,482.53.

There are no fixed assets leased in or out under financial leases in the year end.

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XV. Notes to the corporate financial statements (continued)

8. Fixed asset (continued)

On 31 December 2007 and 31 December 2006, the net book values of fixed assets leased out under operating leases are as follows:

	Buildings	Machinery	Vehicles	Other equipments
31 December 2007	<u>19,065,796.35</u>	-	-	-
31 December 2006 (Restated)	<u>19,745,221.89</u>	-	-	-

9. Construction in progress

2007

	Budget	Opening balance	Additions	Transferred to fixed asset	Other decrease	Closing balance	Source of funds
150,000-unit Project	2,509,968,032.00	1,026,758.00	83,000.00	851,968.00	-	257,790.00	Selfraised
Mini Bus Production Line	733,526,367.81	22,632,185.00	88,347,481.86	32,057,632.19	160,000.00	78,762,034.67	Selfraised
Changan Industrial Garden Project	1,256,675,133.23	9,391,523.00	55,954,783.57	9,034,866.77	874,098.00	55,437,341.80	Selfraised
Others	N/A	7,028,476.00	144,082,871.07	62,663,877.96	2,145,616.12	86,301,852.99	Selfraised
		<u>40,078,942.00</u>	<u>288,468,136.50</u>	<u>104,608,344.92</u>	<u>3,179,714.12</u>	<u>220,759,019.46</u>	

2006 (Restated)

	Budget	Opening balance	Additions	Transferred to fixed asset	Other decrease	Closing balance	Source of funds
150,000-unit Project	2,510,820,000.00	25,177,869.66	10,149,880.33	32,500,191.99	1,800,800.00	1,026,758.00	Selfraised
Mini Bus Production Line	23,509,655.00	23,509,655.00	61,814,993.00	62,692,463.00	-	22,632,185.00	Selfraised
Changan Industrial Garden Project	1,265,710,000.00	20,788,231.59	8,225,053.50	19,621,762.09	-	9,391,523.00	Selfraised
SC6350 Production Line	N/A	4,257,202.00	931,506.00	5,188,708.00	-	-	Selfraised
Others	N/A	167,698,765.75	119,211,184.17	279,881,473.92	-	7,028,476.00	Selfraised
		<u>241,431,724.00</u>	<u>200,332,617.00</u>	<u>399,884,599.00</u>	<u>1,800,800.00</u>	<u>40,078,942.00</u>	

On 31 December 2007, there are no borrowing costs capitalized during the current year. (2006: RMB 265,607.33).

On both 31 December 2007 and 31 December 2006, there is no provision for the impairment of construction in progress.

10. Project materials

	2007	2006 (Restated)
Specific materials	<u>6,279,679.78</u>	<u>4,285,122.00</u>

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XV. Notes to the corporate financial statements (continued)

11. Intangible assets

2007

	Land use rights	Software use rights	Total
Original price:			
Opening balance	19,282,290.00	-	19,282,290.00
Additions	426,185.00	9,335,387.78	9,761,572.78
Deductions	-	-	-
Closing balance	<u>19,708,475.00</u>	<u>9,335,387.78</u>	<u>29,043,862.78</u>
Accumulated amortization:			
Opening balance	347,592.00	-	347,592.00
Provision	28,129.00	2,233,475.05	2,261,604.05
Write-off	-	-	-
Closing balance	<u>375,721.00</u>	<u>2,233,475.05</u>	<u>2,609,196.05</u>
Impairment provision:			
Opening balance	6,700,000.00	-	6,700,000.00
Provision	-	-	-
Write-off	-	-	-
Closing balance	<u>6,700,000.00</u>	<u>-</u>	<u>6,700,000.00</u>
Book value:			
Opening balance	<u>12,234,698.00</u>	<u>-</u>	<u>12,234,698.00</u>
Closing balance	<u>12,632,754.00</u>	<u>7,101,912.73</u>	<u>19,734,666.73</u>

Chongqing Changan Automobile Company Limited
Notes to Financial Statement (continued)
2007
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XV. Notes to the corporate financial statements (continued)

11. Intangible assets (continued)

2006 (Restated)		Land use rights
Original price:		
Opening balance	8,603,700.00	
Additions	10,678,590.00	
Deductions	-	
Closing balance	<u>19,282,290.00</u>	
Accumulated amortization:		
Opening balance	319,464.00	
Provision	28,128.00	
Write-off	-	
Closing balance	<u>347,592.00</u>	
Impairment provision:		
Opening balance	6,700,000.00	
Provision	-	
Write-off	-	
Closing balance	<u>6,700,000.00</u>	
Book value:		
Opening balance	<u>1,584,236.00</u>	
Closing balance	<u>12,234,698.00</u>	

On 31 December 2007, no intangible assets (2006: nil) are used as security for debts.

On 31 December 2007, there are no land use rights without ownership certificates.

12. Development expenditure

	2007	2006 (Restated)
Automobile Research and Development	<u>100,710,739.51</u>	<u>-</u>

Chongqing Changan Automobile Company Limited
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XV. Notes to the corporate financial statements (continued)

12. Development expenditure (continued)

The amount of internal research and development expenditure is:

	2007	2006 (Restated)
Expense amount	250,434,091.51	282,936,414.56
Capitalization amount	<u>100,710,739.51</u>	<u>-</u>
	<u>351,144,831.02</u>	<u>282,936,414.56</u>

13. Long-term deferred expenses

	2007	2006 (Restated)
Green Project of Gaobao Lake Reservoir	<u>1,620,720.00</u>	<u>1,800,800.00</u>

14. Deferred tax assets/liabilities

Recognized deferred tax assets:

2007

	Provision for the impairment of assets	Accruals and Foreseeable Liabilities	Unpaid Tech develop. Expense and ad Expense	Unpaid Salary and bonus	Total
Opening balance	18,510,313.00	59,763,830.00	9,801,262.22	22,928,702.78	111,004,108.00
Charged to the income statement	<u>3,531,109.00</u>	<u>(1,897,180.00)</u>	<u>(6,237,968.22)</u>	<u>(7,610,890.64)</u>	<u>(12,214,929.86)</u>
Closing balance	<u>22,041,422.00</u>	<u>57,866,650.00</u>	<u>3,563,294.00</u>	<u>15,317,812.14</u>	<u>98,789,178.14</u>

2006 (Restated)

	Provision for the impairment of assets	Accruals and Foreseeable Liabilities	Unpaid Tech develop. Expense and ad Expense	Unpaid Salary and bonus	Total
Opening balance	22,491,546.22	61,417,177.80	5,378,136.03	12,557,990.22	101,844,850.27
Charged to the income statement	<u>(3,981,233.22)</u>	<u>(1,653,347.80)</u>	<u>4,423,126.19</u>	<u>10,370,712.56</u>	<u>9,159,257.73</u>
Closing balance	<u>18,510,313.00</u>	<u>59,763,830.00</u>	<u>9,801,262.22</u>	<u>22,928,702.78</u>	<u>111,004,108.00</u>

The Company anticipates there will be enough taxable income to deduct the temporality deductible difference, and thus, the Company confirms the above deferred income tax property.

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XV. Notes to the corporate financial statements (continued)

15. Provision for the impairment of assets

2007

	Opening balance	Provision	Acquisition of Subsidiaries	Deductions		Closing balance
				Reversal	Write-off	
Bad debt provision	88,740,038.00	1,248,139.32	-	3,661,463.00	707,048.00	85,619,666.32
Provision for obsolete inventory	8,746,326.65	14,260,254.03	-	407,903.68	-	22,598,677.00
Provision for the impairment of long-term equity investments	27,120,000.00	-	-	-	-	27,120,000.00
Provision for the impairment of fixed assets	-	34,965,193.00	-	-	20,895,165.00	14,070,028.00
Provision for the impairment of intangible assets	6,700,000.00	-	-	-	-	6,700,000.00
	<u>131,306,364.65</u>	<u>50,473,586.35</u>	<u>-</u>	<u>4,069,366.68</u>	<u>21,602,213.00</u>	<u>156,108,371.32</u>

2006 (Restated)

	Opening balance	Provision	Acquisition of Subsidiaries	Deductions		Closing balance
				Reversal	Write-off	
Bad debt provision	81,435,985.00	11,722,552.00	-	4,418,499.00	-	88,740,038.00
Provision for obsolete inventory	9,637,225.30	618,299.53	-	1,509,198.18	-	8,746,326.65
Provision for the impairment of long-term equity investments	27,120,000.00	-	-	-	-	27,120,000.00
Provision for the impairment of intangible assets	6,700,000.00	-	-	-	-	6,700,000.00
	<u>124,893,210.30</u>	<u>12,340,851.53</u>	<u>-</u>	<u>5,927,697.18</u>	<u>-</u>	<u>131,306,364.65</u>

2007

2006
(Restated)

Issue of trading bond 513,680,000.00 512,060,000.00

	Total face value	2006-12-31 (restated)	Face value of debentures issued In current year	Interest rate accrued in current year	Paid in Current year	2007-12-31
Debentures	500,000,000.00	512,060,000.00	-	3,990,000.00	516,050,000.00	-
Debentures	500,000,000.00	-	500,000,000.00	13,680,000.00	-	513,680,000.00
	<u>1,000,000,000.00</u>	<u>512,060,000.00</u>	<u>500,000,000.00</u>	<u>17,670,000.00</u>	<u>516,050,000.00</u>	<u>513,680,000.00</u>

Complying with the [2006]66-file, namely, the “Permittance of Issuance of short-term financing bonds by Chongqing Changan Automobile Company Limited” approved by the People’s Bank of China, the Company issued publicly 5,000,000 short-term financing bonds at par in National Inter-Bank Bond Market on March 26, 2007, with a total value of RMB 500,000,000.00 and per face value of 100RMB each. The bond principal and accrued interest will be paid in one year, at a book return of 3.65%.

Chongqing Changan Automobile Company Limited
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XV. Notes to the corporate financial statements (continued)

17. Notes payable

	2007	2006 (Restated)
Bank acceptance	1,271,450,000.00	1,600,500,000.00
Trade acceptance	<u>-</u>	<u>53,150,000.00</u>
Total	<u>1,271,450,000.00</u>	<u>1,653,650,000.00</u>

On 31 December 2007, within the aforesaid balance, there is an amount of RMB 38,600,000.00 due to shareholders that hold 5% or more of the Company's voting shares (2006: nil).

18. Accounts payable

Accounts payable bear no interest, and are normally repaid within four months.

On 31 December 2007, within the aforesaid balance, there is an amount of RMB 44,492,612.26 due to shareholders that hold 5% or more of the Company's voting shares(2006: RMB 52,786,886.30).

On 31 December 2007 and 31 December 2006, there is no significant accounts payable of over one year.

19. Advances receipts

On 31 December 2007, within the aforesaid balance, there is no amount due to shareholders that hold 5% or more of the Company's voting shares. (2006: nil)

On 31 December 2007 and 31 December 2006, there are no significant advances receipts of over one year.

20. Employee compensation payable

2007	Opening balance	Additions	Payments	Closing balance
Salary, bonus, allowance and subsidy	101,040,633.00	336,645,029.67	374,196,483.45	63,489,179.22
Employee benefit	6,985,289.00	95,739,379.37	102,724,668.37	-
Labour fees and labor education fees	-	7,612,214.25	7,612,214.25	-
Social insurance premium	36,149,484.62	54,146,015.93	76,732,602.66	13,562,897.89
Housing accumulation fund	<u>(577,624.06)</u>	<u>13,657,287.00</u>	<u>7,800,218.88</u>	<u>5,279,444.06</u>
	<u>143,597,782.56</u>	<u>507,799,926.22</u>	<u>569,066,187.61</u>	<u>82,331,521.17</u>

Chongqing Changan Automobile Company Limited
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2007
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XV. Notes to the corporate financial statements (continued)

20. Employee compensation payable (continued)

2006 (Restated)	Opening balance	Additions	Payments	Closing balance
Salary, bonus, allowance and subsidy	123,721,320.00	280,701,242.00	303,381,929.00	101,040,633.00
Employee benefit	6,185,021.00	99,622,189.00	98,821,921.00	6,985,289.00
Labour fees and labor education fees	-	5,659,538.40	5,659,538.40	-
Social insurance premium	81,355,858.94	25,973,319.33	71,179,693.65	36,149,484.62
Housing accumulation fund	<u>(910,018.43)</u>	<u>5,642,667.00</u>	<u>5,310,272.63</u>	<u>(577,624.06)</u>
	<u>210,352,181.51</u>	<u>417,598,955.73</u>	<u>484,353,354.68</u>	<u>143,597,782.56</u>

21. Taxes payable

	2007	2006 (Restated)
Corporate income tax	-	38,897,951.00
Business tax	3,639,736.63	4,329,458.00
Value-added tax	15,386,265.00	70,778,594.00
City maintenance and construction tax	4,675,377.00	7,644,568.00
Consumption tax	113,404,212.00	116,194,725.00
Education additional expenses	<u>1,989,176.00</u>	<u>3,261,684.00</u>
Total	<u>139,094,766.63</u>	<u>241,106,980.00</u>

For the details of tax basis and tax rate, please refer to Note IV.

Chongqing Changan Automobile Company Limited
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XV. Notes to the corporate financial statements (continued)

22. Other payables

	2007	2006 (Restated)
Dealer earnest money	6,031,000.00	5,040,000.00
Warrenty	13,430,969.51	14,471,815.00
Repair fees	42,081,407.52	48,529,407.00
Rental fees	3,568,120.00	3,868,190.00
Advertismnt fees	16,581,747.09	14,210,003.00
Warehousing and transport fees	65,537,341.25	56,764,080.86
Information technology expense	7,173,548.75	47,947,205.00
Loans temporarily	9,230,667.76	9,238,873.00
Project funds	14,427,524.87	16,420,263.16
Project earnest money	10,810,000.00	10,739,101.00
Other intercourse funds	<u>40,213,774.53</u>	<u>36,112,304.42</u>
	<u>229,086,101.28</u>	<u>263,341,242.44</u>

On 31 December 2007, within the aforesaid balance, there is no amount due from shareholders that hold 5% or more of the Company's voting shares.(2006: nil)

On 31 December 2007 and 31 December 2006, there are no significant other payables of over one year.

23. Contingent liabilities

2007

	Opening balance	Addition	Decrease	Closing balance	Reasons for Credit balance
Warranty	<u>197,000,875.00</u>	<u>161,754,816.00</u>	<u>183,628,068.25</u>	<u>175,127,622.75</u>	Note

2006 (Restated)

	Opening balance	Addition	Decrease	Closing balance	Reasons for Credit balance
Warranty	<u>208,319,194.00</u>	<u>124,937,767.00</u>	<u>136,256,086.00</u>	<u>197,000,875.00</u>	Note

Note: The above represents the warranty cost for repairs and maintenance of vehicles paid during the period.

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Notes to Financial Statement (continued)
2007
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XV. Notes to the corporate financial statements (continued)

24. Other current liabilities

	2007	2006
Accrued expenses	205,448,072.76	201,424,659.00
Retirement benefit obligations (Notes XV, 27)	<u>2,054,000.00</u>	<u>2,034,063.00</u>
	<u>207,502,072.76</u>	<u>203,458,722.00</u>

The accrued expenses are listed as follows:

	2007	2006 (Restated)	Reasons for Credit
Advertisement expenses	84,398.00	3,184,540.00	undue
Transportation fees	54,028,651.00	38,318,134.00	undue
Trade discount	125,795,942.00	128,473,016.00	undue
Royalties for transfer of technology	14,686,354.00	22,235,074.00	undue
ERP upgrade expense	987,092.00		undue
Others	<u>9,865,635.76</u>	<u>9,213,895.00</u>	undue
	<u>205,448,072.76</u>	<u>201,424,659.00</u>	

25. Long-term loans

	2006 (Restated)	Borrowing requirement	Interst rate
China Construction Bank	950,000,000.00*	guaranty	5.58~6.85%

* Please refer to notes VI, 28.

Chongqing Changan Automobile Company Limited
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2007
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XV. Notes to the corporate financial statements (continued)

26. Deferred income

2007

	Opening balance	Additions during the year	deductions		Closing balance
			Carry-forward	Others	
Project 863	20,190,000.00	7,465,000.00	7,333,317.13	-	20,321,682.87
Test on key technology of hybrid electric vehicles	-	5,000,000.00	4,254.00	-	4,995,746.00
Development of hydrogen internal combustion Engine	-	2,800,000.00	1,149,966.42	-	1,650,033.58
Key technology on trans-region platform	-	3,600,000.00	1,790,663.82	-	1,809,336.18
Others	-	2,941,000.00	485,012.11	-	2,455,987.89
	<u>20,190,000.00</u>	<u>21,806,000.00</u>	<u>10,763,213.48</u>	<u>-</u>	<u>31,232,786.52</u>

2006 (Restated)

	Opening balance	Additions during the year	deductions		Closing balance
			Carry-forward	Others	
Project 863*	-	<u>20,190,000.00</u>	-	-	<u>20,190,000.00</u>

* Please refer to Notes VI, 29.

27. Other non-current liabilities

	2007	2006 (Restated)
Compensation for retirement	<u>25,628,000.00</u>	<u>29,890,718.00</u>

On 31 December 2007, the balance of compensation payable is RMB 27,682,000.00 (2006: RMB 31,924,781.00), including RMB 2,054,000.00 to be paid within one year, which is recorded in other current liabilities (2006: RMB 2,034,063.00).

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XV. Notes to the corporate financial statements (continued)

28. Share capital

The registered and paid-in share capital of the Company is RMB 1,945,019,040.00, The face value of each share is RMB 1.00, and the category and structure of the shares are as follows:

	Opening balance		Increase (decrease) in the number of shares during the year				2007		
	No. of shares	Proportion	Issuance of new shares	Distribution of shares instead of profit to original shareholders	Reserve fund	Others	Subtotal	No. of shares	Proportion
I Shares tradable under certain conditions									
1. State-owned shares									
2. State-owned legal person shares	738,255,200	45.547%		147,651,040	-	-	147,651,040	885,906,240	45.547%
3. Shares held by other domestically-invested entities									
Including:									
Shares held by domestic non-state-owned legal persons	-	-		-	-	-	-	-	-
Shares held by domestic natural persons	462,594,000	28.540%		92,518,800	-	-	92,518,800	555,112,800	28.540%
4. Shares held by foreign-invested entities									
Including:									
Shares held by foreign legal persons									
Shares held by foreign natural persons	420,000,000	25.912%		84,000,000	-	-	84,000,000	504,000,000	25.912%
Total of shares tradable under certain conditions	<u>1,620,849,200</u>	<u>100.00%</u>		<u>324,169,840</u>	<u>-</u>	<u>-</u>	<u>324,169,840</u>	<u>1,945,019,040</u>	<u>100%</u>
II Shares tradable under all conditions									
Total of shares tradable under all conditions	<u>-</u>	<u>-</u>		<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
III Total number of shares	<u>1,620,849,200</u>	<u>100.00%</u>		<u>324,169,840</u>	<u>-</u>	<u>-</u>	<u>324,169,840</u>	<u>1,945,019,040</u>	<u>100%</u>

The increase of share capital is due to the plan of capital increase and stock dividend, stock dividend by 10: 2 to all shareholders, which has been validated by Chongqing Wanyou Accountant's Firm.

29. Capital reserves

	2007	2006 (Restated)
Capital stock premium	1,796,964,940.00	1,796,964,940.00
Provision of stock investment	194,347,616.00	194,347,616.00
Input of share premium under original system	11,989,191.00	44,496,899.00
Other share premium*	<u>63,419,477.17</u>	<u>-</u>
	<u>2,066,721,224.17</u>	<u>2,035,809,455.00</u>

* Please refer to notes VI, 32.

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XV. Notes to the corporate financial statements (continued)

30. Surplus reserves

	2006 (Restated)	Increase during the year	Decrease during the year	2007
Statutory surplus reserves	<u>1,018,281,748.00</u>	<u>-</u>	<u>-</u>	<u>1,018,281,748.00</u>
	2005 (Restated)	Increase during the year	Decrease during the year	2006
Statutory surplus reserves	484,438,037.00	533,843,711.00	-	1,018,281,748.00
Legal public welfare funds	<u>478,861,564.50</u>	<u>-</u>	<u>478,861,564.50</u>	<u>-</u>
	<u>963,299,061.50</u>	<u>533,843,711.00</u>	<u>478,861,564.50</u>	<u>1,018,281,748.00</u>

31. Retained earnings

	2007	2006 (Restated)
Retained earnings at the year-end of the prior year	2,743,304,083.00	2,330,062,804.24
Add: First-time adoption of the Accounting Standards for Business Enterprises (Notes III 22)	107,460,557.00	75,412,090.00
At beginning of year after retrospective adjustment	2,850,765,640.00	2,405,474,894.24
Add: Net profit	799,123,506.01	597,522,843.76
Less: Appropriation to statutory surplus reserves	-	54,982,146.00
Cash dividends payable	<u>421,420,792.00</u>	<u>97,250,952.00</u>
Retained earnings at the year end	<u>3,228,467,354.01</u>	<u>2,850,764,640.00</u>

32. Operating revenue and expenses

The operating revenue is listed as follows:	2007	2006 (Restated)
Operating revenue from principal business	8,430,837,869.00	6,756,750,369.64
Other operating revenue	<u>644,183,652.62</u>	<u>751,462,965.70</u>
	<u>9,075,021,521.62</u>	<u>7,508,213,335.34</u>

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XV. Notes to the corporate financial statements (continued)

32. Operating revenue and expenses (continued)

The operating revenue from principal operations and its expenses are listed as follows:

	2007		2006 (Restated)	
	Revenue	Expense	Revenue	Expense
Sale of goods	8,430,837,869.00	7,233,894,085.00	6,756,750,369.64	5,668,420,663.58
	8,430,837,869.00	7,233,894,085.00	6,756,750,369.64	5,668,420,663.58
			2007	2006 (Restated)
Amount of revenue from the top five clients		1,308,533,861.38		1,010,942,931.17
Proportion by total operating revenue		14.42%		13.46%

33. Business tax and surcharges

	2007	2006 (Restated)
Business tax	5,443,178.00	6,997,391.00
Consumption tax	198,458,237.84	152,520,103.00
City maintenance and construction tax	29,758,677.00	22,424,522.80
Education additional expenses	12,753,719.00	9,638,667.20
	246,413,811.84	191,580,684.00

The standard for the calculation and payment of the business tax please refer to notes IV.

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XV. Notes to the corporate financial statements (continued)

34. Financial expenses

	2007	2006 (Restated)
Interest expense	47,716,003.34	66,581,896.22
Less: the amount of capitalized interest	<u>-</u>	<u>265,607.33</u>
	47,716,003.34	66,316,288.89
Less: interest income	56,899,755.25	45,322,533.94
Exchange gain or loss	(189,627.82)	(65,815.45)
Others	<u>3,461,810.21</u>	<u>3,292,725.50</u>
	<u>(5,911,569.52)</u>	<u>24,220,665.00</u>

35. Impairment loss on assets

	2007	2006 (Restated)
Bad debt loss	(2,413,323.68)	7,304,053.00
Loss due to the decline in the market price of inventory	13,852,350.35	(890,898.65)
Impairment loss on fixed assets	<u>34,965,193.00</u>	<u>-</u>
	<u>46,404,219.67</u>	<u>6,413,154.35</u>

36. Investment income

	2007	2006 (Restated)
Long-term equity investment income	903,933,998.53	551,020,608.00
Gain arising from dividends of subsidiaries	8,756,820.86	19,336,680.88
Gain or loss arising from the disposal of long-term equity investments	1,338,712.41	850,540.00
Others	<u>-</u>	<u>12,665.00</u>
	<u>914,029,531.80</u>	<u>571,220,493.88</u>

On 31 December 2007 and 31 December 2006, the remittance of the Company's investment income is subject to no significant restriction.

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XV. Notes to the corporate financial statements (continued)

37. Non-operating income

	2007	2006 (Restated)
Gain on the disposal of non-current assets	911,560.23	268,129.00
Government grants	12,921,000.00	14,157,000.00
Gain from forfeit	928,323.07	-
Others	<u>5,660,163.89</u>	<u>92,769.00</u>
	<u>20,421,047.19</u>	<u>14,517,898.00</u>

The details of government grants are as follow:

	2007	2006 (Restated)
Finance subsidy *	6,600,000.00	7,300,000.00
New product grants*	5,302,000.00	6,857,000.00
Others	<u>1,019,000.00</u>	<u>-</u>
	<u>12,921,000.00</u>	<u>14,157,000.00</u>

* Please refer to Notes VI, 41.

The remittance of the above Company's government grants is subject to no significant extra restriction.

38. Non-operating expenses

	2007	2006 (Restated)
Loss on the disposal of non-current assets	16,168,557.95	5,265,594.00
Donation expenditure on public welfare	2,741,743.00	1,131,040.00
Extrordinary loss	-	150,000.00
Others	<u>888,031.54</u>	<u>1,104,120.00</u>
	<u>19,798,332.49</u>	<u>7,650,754.00</u>

Chongqing Changan Automobile Company Limited
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XV. Notes to the corporate financial statements (continued)

39. Income tax expense

	2007	2006
Income tax expense of the current period	-	1,028,549.73
Deferred tax expense	<u>12,214,929.86</u>	<u>(9,159,257.73)</u>
	<u>12,214,929.86</u>	<u>(8,130,708.00)</u>

The relationship of income tax expense and total profit is as follow:

	2007	2006
Total profit	811,338,435.87	589,392,135.76
Tax at the statutory [or applicable] tax rate	267,741,684.26	194,499,404.70
Impact arising from the application of different tax rates by some subsidiaries	(146,040,918.46)	(106,090,584.44)
Adjustments in respect of the current tax of previous periods	-	-
Profit or loss attributable to joint ventures and associates	(135,590,100.00)	(82,653,091.33)
Income not subject to tax	(1,313,523.00)	(2,945,502.15)
Non-deductible tax expense	2,666,576.10	11,743,346.04
Additional deduction arising from research and development expense	(18,782,556.86)	(22,684,280.82)
Unrecognized tax loss	<u>43,533,767.82</u>	<u>-</u>
Tax expense at the effective tax rate of the Company	<u>12,214,929.86</u>	<u>(8,130,708.00)</u>

Chongqing Changan Automobile Company Limited
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XV. Notes to the corporate financial statements (continued)

40. Other cash paid or received relating to operating activities

Significant cash flows are listed as follows:

	2007	2006 (Restated)
Other cash received relating to operating activities:		
Interest received	56,899,755.25	45,322,533.94
Commission of technique allowance	20,886,049.20	14,930,105.79
Allowance	21,506,000.00	20,190,000.50
Other cash paid relating to operating activities:		
Administrative expense	412,513,117.00	292,229,910.99
Selling expense	689,549,567.00	256,367,003.05
Paid foregift and deposit	60,922,856.00	72,168,384.62
Other cash received relating to financing activities:		
Receipt of deposit	95,000,000.00	-
Receipt from issuing bonds	500,000,000.00	498,340,000.00
Other cash paid relating to financing activities:		
Payment of bonds	500,000,000.00	-
Payment of deposit	-	95,000,000.00

41. Cash flows from operating activities

	2007	2006 (Restated)
Cash flows from operating activities calculated by adjusting the net profit:		
Net profit	799,123,506.01	597,522,843.76
Plus: Impairment provision for assets	46,404,219.67	6,413,154.35
Depreciation on fixed assets	326,854,051.00	305,433,111.00
Amortization of intangible assets	2,261,603.05	28,128.00
Amortization of long-term deferred expense	180,080.00	-
Loss of disposal of fixed assets, intangible assets and other long-term assets	15,256,997.72	4,997,465.00
Loss on the change in fair value	-	-
Financial expenses	47,716,003.34	66,316,288.89
Investment loss	(914,029,531.80)	(571,220,493.88)
Decrease in deferred tax assets	12,214,929.84	(9,159,257.73)
Increase in deferred tax liabilities	-	-
Decrease in inventory	(357,222,057.00)	(300,200,067.00)
Decrease in recurrent receivables	399,422,253.87	(534,034,155.14)
Increase in recurrent payables	<u>161,810,875.62</u>	<u>879,877,714.75</u>
Net cash flows from operating activities	<u>539,992,931.32</u>	<u>445,974,732.00</u>

Chongqing Changan Automobile Company Limited
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XV. Notes to the corporate financial statements (continued)

42. Cash and cash equivalents

	2007	2006
Cash	1,169,325,053.21	1,208,038,812.00
Including: cash on hand	-	-
Bank deposits that can be used for payment whenever necessary	1,169,325,053.21	1,208,038,812.00
Other monetary capital that can be used for payment whenever necessary	-	-
	<u>1,169,325,053.21</u>	<u>1,208,038,812.00</u>
Closing balance of 'Cash and cash equivalents'	<u>1,169,325,053.21</u>	<u>1,208,038,812.00</u>

XVI. Approval of the financial statements

The financial statements were approved and authorised for issue, upon the resolution of the Company's the sixth conference of fourth board of directors on 24 March 2008.

According to the Company's articles of association, the financial statements will be submitted for the decision of the general meeting of shareholders.

Chongqing Changan Automobile Company Limited
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Appendix I: Supplementary information to financial statements

I. Return on equity and earnings per share

	<u>2007</u>		<u>2007</u>
	Return on equity		Earnings per share
	Fully diluted weighted average		RMB
Net profit attributable to the Company's ordinary shareholders	8.81%	9.20%	0.34
Net profit attributable to the Company's ordinary shareholders after deducting non-recurring profit and loss	8.81%	9.21%	0.34
	<u>2006 (Restated)</u>		<u>2006 (Restated)</u>
	Return on equity		Earnings per share
	Fully diluted weighted average		RMB
Net profit attributable to the Company's ordinary shareholders	7.45%	7.70%	0.27
Net profit attributable to the Company's ordinary shareholders after deducting non-recurring profit and loss	7.39%	7.63%	0.26

The Company has no dilutive potential ordinary shares.

In accordance with the regulations issued by China Security Regulation Commission (2007), No 9 Regulation of Information Disclosure of Public Companies----the Calculation and Disclosure of Return of Net Assets and Earning per Share, the Group disclosed the return of net assets and earning per share in the reporting period.

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Appendix I
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Appendix I: Supplementary information to financial statements (continued)

I. Return on equity and earnings per share (continued)

Including: the net profit attributable to the Company's ordinary shareholders, after deducting non-recurring profit and loss

	2007	2006 (Restated)
Net profit attributable to the Company's ordinary shareholders	666,893,971.66	519,444,804.81
Plus(Less): Non-recurring profit and loss items		
Profit and loss arising from the disposal of non-current assets	18,807,054.91	6,024,573.00
Government grants	(12,936,000.00)	(14,212,000.00)
Donation expenditure on public welfare	2,881,743.00	1,366,040.00
Gain from penalty	(1,149,228.06)	(47,211.33)
Others	371,866.27	2,145,600.33
Effect of the non-recurring profit and loss on income tax	(355,683.51)	672,971.23
Net profit after deducting non-recurring profit and loss	674,513,724.27	515,394,778.04
Less: net effect on the profit and loss attributable to minority shareholders	<u>7,037,798.28</u>	<u>382,848.57</u>
Net profit attributable to the Company's ordinary shareholders after deducting non-recurring profit and loss	<u>667,475,925.99</u>	<u>515,011,929.47</u>

The Company recognizes non-recurring profit and loss items, according to the provisions of Q&A No. 1 Regarding the Standards for the Information Disclosure by Companies Publicly Issuing Securities (CSRC Accounting No. 9, 2007).

Chongqing Changan Automobile Company Limited
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Appendix I: Supplementary information to financial statements (continued)

II. Analysis on the adjustment or correction to owners' equity at the first-time adoption date

Item	Amount
Net profit for the year ended 31 December 2006 (the original accounting)	7,306,779,344.00
1. The adjustment that the difference of long-term investment due to combination under same control reversing amortization	37,076,154.00
2. Effect of adjustment on government grant	(79,822,013.00)
3. Effect of current year's deferred tax	206,780,213.57
4. Effect of Pre-operating expense amortised in one-time	(301,050,194.00)
5. The change of the scope of combination	45,304,321.00
6. Adjustment for consolidation and counteraction on increment of evaluation of fixed assets investment	(225,680,304.00)
7. Adjustment on financial assets measured in fair value, whose change of value is recorded in current year's profit and loss and long-term equity investment, held for trading	(16,873,622.00)
Net profit for the year ended 1 January 2007 (the new accounting standards)	<u>6,972,513,899.57</u>
Difference on minority shareholder's profit and loss Including: correction data influencing minority interests	157,398,438.24 (1,537,558,412.76)
Net profit for the year ended 1 January 2007 (the new accounting standards)	<u>7,129,912,337.81</u>

Chongqing Changan Automobile Company Limited
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Appendix II Reconciliation table for differences in net profit arising from the adoption of new accounting standards

According to the provisions of Q&A No. 7 regarding the Standard for the Information Disclosure by Companies Publicly Issuing Securities – Preparation and Disclosure of Comparative Financial Information during the Transition to the New Accounting Standards (CSRC Accounting No. 10 [2007]) (the “Q & A No. 7”), the Company has prepared the reconciliation table for differences in net profit arising from the adoption of the new accounting standards, to list the retrospective adjustments made to the income statement for the year ended 31 December 2006. The Company also assumes the adoption of the Accounting Standards for Business Enterprises No. 1 to No. 37 from the beginning of the comparison period (i.e., 1 January 2006); other than issues that are required to be retrospectively adjusted under Articles 5 to 19 of the Accounting Standards for Business Enterprises No. 38 – First-time Adoption of the Accounting Standards for Business Enterprises, issues that are not required to be retrospectively adjusted are listed item by item in the following reconciliation table, through an analysis on the significant difference between the net profit under the new accounting standards and the original standards, respectively.

Reconciliation Table for Differences in Net Profit Arising from the adoption of New Accounting Standards for the Year Ended 31 December 2006

Net profit for the year ended 31 December 2006 (the original accounting standards)	646,749,740.00
Retrospective adjustments	
1. The adjustment that the difference of long-term investment due to combination under same control reversing amortization	13,311,793.00
2. Effect of adjustment on government grant	30,022,968.49
3. Effect of current year’s deferred tax	19,025,743.57
4. Effect of Pre-operating expense amortised in one-time	(195,576,031.00)
5. Effect of reversal on impairment provision of long-term equity investment	(12,900,000.00)
6. The change of the scope of combination	24,981,755.92
7. Adjustment for consolidation and counteraction on increment of evaluation of fixed assets investment	10,702,457.00
8. Adjustment on financial assets measured in fair value, whose change of value is recorded in current year’s profit and loss and long-term equity investment, held for trading	<u>(16,873,622.00)</u>
Difference on minority shareholder’s profit and loss In current year	(45,503,306.00)
Including: correction data influencing minority interests	<u>1,465,966.00</u>
Total effect of the retrospective adjustments	<u>(172,808,241.02)</u>
Net profit for the year ended 31 December 2006 (the new accounting standards)	<u>473,941,498.81</u>

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
26 March, 2008