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Important note: The Board of Directors assure that there is no mendacious description, misleading information or significant omission in the contents of this report. The Directors assume their individual and collective responsibility on the authenticity, accuracy and completeness of the report.

Content of Annual Report

1 Company's General Introduction

(1)	Company's legal Chinese name:	**重庆长安汽车股份有限公司**	
	Company's legal English name:	Chongqing Changan Automobile Company Limited	
(2)	Legal representative:	Zhao Guohua	
(3)	Secretary of the Board	Yan Changyun	
	Address:	Board of Directors office	
	Telephone:	(023) 67591349, 62901907	
	Fax:	(023) 67866055, 62820649	
(4)	Registered address:	No. 309 Nan Cheng Road Nan An District, Chongqing	
	Post code:	400060	
	Office address:	No. 260 Jian Xin East Road Jiang Bei District, Chongqing	
	Post code:	400023	
	Internet address:	http://www.changan.com.cn	
(5)	Publications for disclosure of Company Information:	*China Securities, Securities Daily, Hongkong Business*	
	URL for disclosure of Company Information:	http.//www.cninfo.com.cn	
	Location of Annual Report:	Board of Directors office	
(6)	Place of listing:	Shenzhen Stock Exchange	
	Abbreviated name of the stock:	Changan Automobile	Changan B
	Stock code:	0625	2625

2 EXTRACTS OF ACCOUNTING AND OPERATING DATA

(1) The Company's accounting data for the current year (RMB'000)

Item	Amount
Profit before tax	159,879
Net profit	32,742
Gross operating profit	832,818
Other operating income - net	30,173
Operating profit	181,188
Investment income	-
Net cash in-flow from operating activities	874,436
Net increase in cash and cash equivalent	638,632

Notes: the above data are consolidated figures including the related financial statements of Changan Suzuki and other subsidiaries of the Company.

(2) Reconciliation of the net profit reported under the PRC accounting standards and International Accounting Standard ("IAS").

The net profit for the year under PRC accounting standards is RMB53,715,000 and the net profit under IAS is RMB32,742,000. For details of the differences please refer to Note 29 of the Company's 1999 financial statements.

(3) Key accounting data and financial indicators of the previous three years

Item	1999	1998	1997
Operating income (RMB'000)	5,446,762	2,470,406	2,925,339
Net profit (RMB'000)	32,742	73,125	201,196
Total assets (RMB'000)	7,066,654	5,288,501	4,967,930
Shareholders' equity (RMB'000)	2,361,857	2,329,115	2,255,990
Return per share	0.027	0.06	0.23
Net assets per share	1.93	1.90	2.57
Adjusted net assets per share	1.85	1.90	2.57
Net cash flow from operating activities per share	0.71	(0.09)	-
Return on net assets (%)	1.4	3.14	8.87

Note 1: The above data and indicators are calculated based on the consolidated financial statements. The number of shares at the end of 1999, 1998 and 1997 were 12,266,660,000 shares, 12,266,660,000 shares and 876,190,000 shares respectively.

Note 2: Formula for calculating financial indicators are as follows:

Return per share = net profit / total number of shares at year-end date

Net asset per share = shareholders' equity at year-end date / total number of shares at year-end date

Adjusted net asset per share = (shareholders' equity at year-end date-accounts receivable aged over 3 years – prepaid expense – assets pending disposal – per-operating expenses – deferred expenses – the debit balance of balance of housing fund)/total number of shares at year end date

Net cash flow from operating activities per share = net cash flow from operating activities / total member of shares at year-end date

Return on net assets = Net profit / shareholders' equity at year-end date × 100%.

(4) Other operating data and indicators of the previous three years.

Item	1999	1998	1997
Sales quantity			
Including: Automobiles (unit)	159,856	106,944	113,025
Engines (set)	57,616	42,635	38,685
Market share (%)	28.41	21.6	24

The market share figures were based on "Report on Production and Sales of Automobiles and Engines in Automobiles Industry" published by State Machinery Industry Bureau.

(5) Movements in shareholders equity (RMB'000)

Item	Share capital	Share premium	Reserve fund	Statutory Public welfare fund	Undistributed profits	Total shareholders' equity
Opening balance	1,226,666	832,568	43,424	43,424	183,033	2,329,115
Additions during the year	-	-	81,447	3,927	32,742	118,116
Reductions during the year	-	-	-	-	(85,374)	(85,374)
Closing balance	1,226,666	832,568	124,871	47,351	150,401	2,361,857

Reason for fluctuation : Major movements in the statutory funds represents the provision of statutory funds by the Company' s subsidiary

3 MOVEMENTS OF SHAREHOLDERS' EQUITY AND INFORMATION ON SHAREHOLDERS

(1) Movements of share capital

I The movement summary of shares (unit: number of shares)

	Opening balance	Increase/decrease during the reporting period (+,-)						Closing balance
		Rights Issue	Bonus Issues	Transfer from share premium	Issue of shares	Others	Sub-total	
1. Non-circulated shares								
(1) Promotor shares	708,666,000							708,666,000
including:								
Stated-owned legal person shares								
Domestic legal person shares	708,666,000							708,666,000
Foreign legal person shares								
Others								
(2) Raised legal entity shares	175,000,000					(175,000,000)	(175,000,000)	-
(3) Employee shares	67,200					(5,400)	(5,400)	61,800
(4) Preemptive shares and others								
Including Transferred rights issue								
Sub-total of non-circulated shares	883,733,200					(175,005,400)	(175,005,400)	708,727,800
2. Circulated shares								
(1) Domestic listed RMB ordinary shares	167,932,800					5,400	5,400	167,938,200
(2) Domestic listed foreign shares	175,000,000					175,000,000	175,000,000	350,000,000
(3) Overseas listed foreign shares								
(4) Others								
Total circulated shares	342,932,800					175,005,400	175,005,400	517,938,200
3. Total shares	1,226,666,000							1,226,666,000

Note: "Employee shares" represent the shares held by Directors, Supervisors and other senior executives. The 5,400 A shares stated in the column "Increase/(Decrease) during the reporting period - Others" were 12,600 shares held by directors, supervisors and secretary of the boards who had left the Company, which were allowed to circulate and 7,200 shares held by supervisors who had been appointed to their position during the year, which were not allowed to circulate. The fluctuation in "Raised legal entity share" were domestic listed foreign shares held by strategic investors which were allowed to circulate during the year.

II Issuing of stocks and listing

i Issuing of domestic listed foreign shares (B shares)

The Company, which was jointly approved by South Industries Group and the Chongqing People's Municipal Government, was established on 31 October 1996 through the issuance of 250,000,000 B shares to qualified overseas investors. Changan Automobile Group Limited ("CAC") is the sole promoter of the Company.

The original share capital of the Company represented 506,190,000 shares of RMB 1.00 each issued to CAC, as promoter of the Company. The number of shares was calculated based on the asset valuation as confirmed by the National Administrative Bureau of State-owned Assets. Pursuant to the approval by the China Securities Regulatory Commission, the Company offered to overseas investors 250,000,000 B shares of nominal value RMB1.00 each during 16^{th} to 25^{th} October 1996. 125,000,000 B shares were offered to strategic investors Suzuki Motor Corporation, American Suzuki Motor Corporation, and Nissho Iwai Corporation at RMB 2.96 per share (equivalent to HK$ 2.76), other overseas investors were offered at RMB 2.03 per share (equivalent to HK$ 1.89). The total capital raised (after deduction of issuing expenses) amounted to HK$ 545,418,250, which was verified by Shenzhen Certified Public Accountants in their capital verification report on [96] Yan Zi No.093.

The Company's B shares were permitted to float in the Shenzhen Stock Exchange on 8 November 1996. The total number of B shares currently trading on the stock exchange is 125,000,000. Strategic investors undertook not to sell their B shares or any other rights related to the issue within three years from the B share issuing date.

ii Issuing of RMB ordinary shares (A shares)

The Company obtained the approval from China Securities Regulatory Commission (approval document Zheng Jian Zi [1997] No.243) to issue 120,000,000 RMB shares (including 37,000,000 employee shares) to the public on 23 May 1997. The nominal value of the share is RMB1.00 per share and the issuing price is RMB 6.36 per share. Total capital raised (after deduction of issuing expenses) amounted to RMB 748,850,000, which was verified by Shenzhen Certified Public Accountants with their capital verification report of [97] Yan Zi Zi No.043.

The publicly issued RMB shares (excluding employee shares) commenced trading in the Shenzhen Stock Exchange on 10 June 1997. Employee shares (excluding those held by Directors, Supervisors and other senior executives) commenced trading in the Shenzhen Stock Exchange on 11 December 1997.

iii In 1998, according to the resolution of shareholders meeting for the year of 1997 for the transfer of capital surplus to share capital, the Company utilized share premiums to issue bonus shares at the basis of 4 shares for every 10 shares to the 876,190,000 shares in issue as of 31 December 1997. After the transfer of share premium to share capital, the total number of shares increased to 1,226,666,000 shares.

iv At the end of the reporting period, all employee shares were held by Directors, Supervisors, and other senior executives, totaling 61,800 shares. These shares remain non-circulated and were placed in custody with the Shenzhen Stock

Registration Company Limited. During the year, 12,600 employee shares were allowed to circulate and 7,200 employee shares were not allowed to circulate.

(2) Information on shareholders

I At the end of the reporting period, there were 98,560 shareholders, comprised of 91,778 A share shareholders (including 14 employee share shareholders) and 6,782 B share shareholders.

II The largest ten shareholders

Name of shareholders	Share held at beginning of the year	Increase/ Decrease during the year	Shares held at year-end date	% of total shares
1.Changan Automobile Group Limited ("CAC")	708,666,000	-	708,666,000	57.77
2. Suzuki Motor Corporation	122,500,000	-	122,500,000	9.99
3.American Suzuki Motor Corporation	35,000,000	-	35,000,000	2.85
4.Nissho Iwai Corporation	17,500,000	-	17,500,000	1.43
5.Baoyong Enterprise Limited	2,786,000	-	2,786,000	0.23
6.Toyo Securities Asia Limited A/C client	2,594,740	102,000	2,696,740	0.22
7.Bony A/C CMG CH China Investment Limited	2,600,100	-	2,600,100	0.21
8.Shinning Year Investment Group Limited	-	2,065,900	2,065,900	0.17
9. Prime Glory International Pte Limited	1,820,000	30,000	1,850,000	0.15
10.Lee Kam Tat Company Limited	1,647,320	(19,360)	1,627,960	0.13

Note: The shares held by CAC represent State-owned legal shares. The rest represents B shares held by foreign shareholders.

American Suzuki Motor Corporation is a wholly owned subsidiary of Suzuki Motor Corporation. The shares held by the two shareholders were allowed to circulate on 5 November 1999, according to the B shares subscription agreement signed by the strategic investors.

III Shareholders holding over 10% of the Company's shares

i CAC holds 708,666,000 shares, representing 57.77% of shares issued. CAC has not pledged any of the Company's shares.

Legal representative of CAC: Zhao Guohua

The business scope of CAC includes the manufacturing and selling of civil guns, ammunition, ordinary machinery, dies, tools, sales of forging and casting parts, electric machinery, chemical products, instruments and real estate development.

ii Suzuki Motor Corporation holds 157,500,000 shares (including shares held by American Suzuki Motor Corporation), representing 12.84% of the total number of shares issued. The two shareholders have not pledged any of the Company's shares.

Legal representative of Suzuki Motor Corporation: Suzuki Osamu.

The business scope of Suzuki Motor Corporation includes the manufacturing, selling, leasing and repairing of automobiles, bicycles, ships, planes, engineering vehicles and other transportation equipment and engines, design, construction; real estate development: land/ marine/ air transportation and port packing.

4 SHAREHOLDERS GENERAL MEETING

(1) A shareholders general meeting was held during the reporting period.

The Company published a notice on 23 April 1999 in *China Securities, Securities Daily and HongKong Business* to convene a shareholders general meeting. The Company held the shareholders general meeting on 26 May 1999 at the Chongqing Changan Hotel. Five shareholders (one A share shareholder and four B share shareholders) attended the meeting, representing 884,688,080 shares, 72.12% of the total issued 1,226,666,000 shares of the Company, which is in accordance with Company Law and the Company's Articles of Association, and other relevant regulations.

The resolutions passed during this meeting was as follows:

I Approved the "1998 Work Report of the Board of Directors"
II Approved the "1998 Work Report of the Supervisory Committee"
III Approved the "1998 Annual Report"
IV Approved the "1998 Profit Distribution Plan"

The net profit of the Company for the year 1998 was RMB16,572,000 (adjusted to RMB73,125,000 under International Accounting Standard). The net profit was appropriated by RMB1,532,000 to statutory reserve fund, RMB 1,532,000 to statutory public welfare fund and no voluntary reserve. The distributable profit to shareholders was RMB140,126,000, which was the lower of the profit under the PRC accounting principles and IAS (included the opening undistributed profits of RMB126,618,000 as adjusted under PRC accounting principles). For the year 1998 the Company did not distribute profits or utilize share premiums to issue bonus shares.

V Approved the "Resolution to continue appointing KPMG Huazhen as the Company's auditors".

The Company resolved to continue appointing KPMG Huazhen as the Company's auditors in 1999.

VI Approved the "Resolution for change of the Company's Directors".

As Mr. Jing Zhijin, director of the Company, had retired, Mr. Peng Minggeng was elected to take his place.

As Mr. Toshinori Suzuki, director of the Company, was assigned to another position, Mr. Koichiro Chikaishi was elected to take his place.

VII Approved the "Resolution for change of the Company's supervisors"

As Mr. Zhang Jintang, supervisor of the Company, had retired and resigned as supervisor, Mr. Liu Changying was elected to take his place.

As Mr. Peng Minggeng, supervisor of the Company, had been assigned to another position, Mr. Liao Mingguang was elected to take his place.

The above resolutions were approved by 884,688,080 shares, which represented 100% of the attending shareholders.

The meeting has been notarized to be authentic, legal and effective, by Gan Bingying and Dong Zerong notary publics.

Profile of the newly elected directors:

Mr. Peng Minggeng was born in 1950, college graduate, was deputy manager of human resource department, deputy secretary of Communist Party of CAC and supervisor of the Company. Mr. Peng is currently the deputy general manager of CAC.

Mr. Koichiro Chikaishi , was born in 1948, graduated in HITOTSUBASHI, was the deputy manager of No.2 Automotive Department of Nissho Iwai Corporation, director and deputy general manager of Chongqing Changan Suzuki Automobile Ltd. Mr. Koichiro Chikaishi is currently the manager of No.2 Automotive Department of Nissho Iwai Corporation.

Profile of the new elected supervisors:

Mr. Liu Changying was born in 1942, was deputy head of Changan Machinery Factory, the deputy general production manager of CAC, the head of Changan special Machinery Factory. Mr. Liu is currently the deputy general manager of CAC.

Mr. Liao Minggang was born in 1941, was deputy head of Jiangling Machinery Factory, Secretary of the CAC Discipline Committee, the head of Changan Precision Machinery Factory. Mr. Liao is currently the deputy secretary of the Communist party of CAC.

The above shareholders general meeting resolutions have been published in *China Securities, Securities Daily and HongKong Business.*

5. REPORTS BY THE BOARD OF DIRECTORS

(1) Summary of the Company's operating activities

I The industry and the Company's position within the industry

The Company is authorized by the government to manufacture mini-automobiles, mini-sedans and engines. The Company is included in the State medium-term and long-term development plan of automobile industry and ranks among the top five car-manufacturing bases. The Company has been given priority in the Ninth 5-Year-Plan. It is expected that the Company will reach annual production capacity of 150,000 mini-automobiles, 150,000 mini-sedans and 360,000 engines.

In 1999, under the leadership of the new management group and the collective effort of all the Company's employees, the Company was ranked the first in mini vehicles industry, second in the engine industry, and fourth in sedan industry.

Set out below is the production and sales of the top ten manufacturers in the Chinese automobile industry in 1999.

Name of enterprise	Production (Quantity)	Sales (Quantity)
Total (112 enterprises)	1,830,323	1,832,470
Shanghai Volkswagon Company Limited	230,946	230,836
The First Automobile Corporation	192,677	189,769
CAC Group (Note 2)	171,012	168,197
Dongfeng Automobile Group Company	165,570	162,223
Tianjin Automobile Industrial Group Company Limited	128,786	140,052
Beijing Automobile Industrial Group Company	121,308	120,292
Changhe Airplane Industrial Company	90,079	92,198
Harbin Hafei Automobile Company	86,017	84,318
The First Automobile Volkswagon	81,464	83,279
Liuzhou Wuling Automobile Company Limited	81,018	84,212

Note 1: The above information comes from the "Report on Production and Sales of Automobiles and Engines in Automobile Industry" issued by the State Machinery Industry Bureau.

Note 2: The production and sales volume of CAC group included the Company, Changan Suzuki, and two other automobile producers of the CAC Group. During 1999 the Company manufactured 116,282 units and sold 116,131 units. Changan Suzuki manufactured 44,583 units and sold 43,725 units.

II The Company's major business scope and operating result

The Company is mainly engaged in development, manufactured and sale of Changan brand mini vehicles, Changan Suzuki brand mini-sedans and various types of Jiangling brand engines.

In 1999, the Company sold 159,856 units of vehicles (including 43,725 units sold by Changan Suzuki) and 57,616 units of engines (including engines sold to Changan Suzuki). As influenced by the financial crisis, the South-east Asia economy was in a recovery period. The export situation of automobiles was critical, which led to the difficulty in expending in the international market. However the Company established the first overseas assembly line in Bangladesh in December 1999. This is a precious experience in exploring the overseas market.

i Turnover of the Company by product types for the year ended 31 December 1999.

Types	Turnover (RMB'000)	%
Mini-lorry	951,031	17.5
Mini-van	2,341,357	43
Special purpose vehicle	33,884	0.6
Alto sedan	1,911,265	35.1
JL 368Q	1,699	-
Serial JL 462Q	42,009	0.8
Serial JL 465Q	35,276	0.6
Serial JL 472Q	51	-
Sub-total	5,316,572	97.6
Others	130,190	2.4
Total	5,446,762	100

ii Sales quantity by product types for the year ended 31 December 1999

Types	Turnover(Quantity)	%
Mini-lorry	48,069	30
Mini-van	67,304	42.1
Special purpose vehicle	749	0.5
Alto sedan	43,734	27.4
Total	159,856	100
JL 368Q	47,089	81.7
Serial JL 462Q	5,609	9.7
Serial JL 465Q	4,392	7.6
Serial JL 472Q	526	1
Total	57,616	100

III Information and results of the subsidiaries of the Company (RMB'000):

Name of enterprises	Registered capital	Share holding	Main business	Turnover	Total profit
Chongqing Changan Suzuki Automobile Ltd	USD70 million	51%	Production and sale of automobiles and parts	1,986,273	278,212
Chongqing Changan Automobile Import and Export Company	10,000	100%	Import and Export, wholesale and retail of automobiles and parts	25,196	6,075
Chongqing Jiangling Electro-mechanical Company	934	100%	Wholesale and retail of automobile and parts	69,997	376
Chongqing Changan Automobile Sales Company	48,500	100%	Sales of automobile, engines and parts	14,720	163
Chongqing Changan Advertising Company	600	100%	Advertisement production And advertising agency	80	(4)

IV Operational problems, difficulties and solutions

A Operational problems

a In 1999, competition in the mini-automobile market increased fiercely, and major mini-automobile manufactures were involved in competition in the areas of new products, quality, price, and service.

b Mini-automobiles were restricted by local policy, local protectionism around the country and domestic automobile exhaust standards. The economic policy, environmental and external conditions faced by the Company became more and more critical.

c With the increasing demand in the needs for automobile safety standards from consumers and the further implementation of statutory regulations on automobile collision standards, leads to challenges in ensuring the safety of automobiles.

B. Solutions:

Under the guidance of the new management group, the Company implemented five projects including New-product Project, Quality Improvement Project, Cost Reduction Project, Sales Project and Locomotive Project. The Company caught the opportunity and carried out new procedures was follows:

-- “New-product project” was an obvious success. Automobile SC6350 has achieved the objectives of 60% localization for its automobile body and 40% localization for its engine. The electronic petrol injection engine JL368Q has passed the national examination. The development of electronic petrol injection automobile SC1012G and SC6331D was successful. Electronic petrol injection multi-valves automobile SC6350B has passed the municipal level examination. The development of automobiles SC6336 was successful. Double-power (Compressed natural gas / petrol) automobile SC6331BN passed the examination. Electronic petrol injection multi-valves engines JL474Q and JL472Q1 also passed the municipal level examination. In 1999, the Company was successful in the development of the “five automobiles and three engines” project, and achieved a satisfactory result. Sales quantity of new automobile for the whole year is 49,578 units, represent 31% of total sales quantity. It accounted for sales income of RMB2,839,620,000, represent 52% of total sales income. New products have become the most important factor in the growth of the Company.

-- “Quality Improvement Project” achieved significant progress. The Company carried out “99 Quality Action” and “Smash the sub-standard products on the spot” for improving quality. The Company focused on the work of quality certification, emphasized the improvement of physical quality, and stressed on resolving the quality problem arising from knocking, scratch and damage. It results in an obvious improvement in the outlook quality. The Company also focused on the “AUDIT” work of quality examination, emphasized the improvement of defects and better solved some long-term problems. The Company made an effort on carrying out the rectification work on the supply of automobile parts and strengthened the quality claims. The Company also obtained the ISO9001 Quality Certification.

The Company’s new product SC6350 (Changan Star) passed the automobile collision examination in the Tsing Hua University Automobile Collision Laboratory in August 1999, which is the first success for mini-vehicles in China. Changan Suzuki’s new product SC7101 (Changan Antelope) also passed the automobile collision test in November 1999.

Changan brand is a national well-known brand, and the first well-known brand in the mini-vehicles industry, which uplifted Changan’s intangible value and its sales promotion.

- Continuous progress of the "Cost Reduction Project". Firstly, the Company enhanced staff training. Secondly, the Company strengthened basic management and built up a complete system for records. The Company established 12 regulations for cost management including "Implementation Rules for Cost Management of Changan Automobile". Thirdly, the Company analyses and implements measurements for assessment and allocated responsibilities to each unit and staff. Fourthly, the Company implemented effective control over the whole process: from product design to technology advance; from purchase to sales, from projects' budget to their completion. Fifthly, the Company's rewards and punishment strictly followed the economic assessment and for technology measurement. The Company carried out "cost veto" system. With the implementation of "cost reduction project" cost had been reduced which contribute to the competitive advantages of the Company in the mini-vehicle market.

- Historical break through from the completion of "Sales Project". The Company carried out the policies "concentrate efforts downward and outwards", "distributors achieve gains, and the end-users are satisfied" firmly. The Company took positive actions, makes flexible decisions, makes creative reforms and completed a tough battle of "Sales Project". The Company put more efforts in the establishment of sales network which makes a solid base for Changan automobile's superiority over its competitors in the sales network, explored new markets. It primarily formed a "three-classes and county-based network" covering all over the country. This year, the Company's sales increasing rate ranked the first in the automobile industry. The Company's Sales ranked the first in the Chinese mini-vehicle industry. The share of the Company in the mini-vehicle industry is 28.41%.

- Further strengthening of "Locomotive Project"

  With the cohesion and initiatives of the Company's new management group, the Company achieved obvious results on the Project. In June 1999 Mr Yin Jiaxu, the Company's General Manager, acquired the honorable title in Chongqing's first "Outstanding Contribution Award for the Development of Chongqing". The Company enhanced the training and performance assessment of management staff, especially at middle level management.

(2) Financial position of the Company

The fluctuations of the Company's total assets, long-term liabilities and shareholders' equity as at 31 December 1999 are set out below:

Item	Year 1999	Year 1998	Fluctuation(%)
Total assets	7,066,654	5,288,501	33.6
Long-term liabilities	702,950	707,900	-0.6
Shareholders' equity	2,361,857	2,329,115	1.4
Gross profit on sales	832,818	230,122	262
Net profit	32,742	73,125	-55.2

The above changes in the total assets, gross profit on sales and other items were mainly due to the consolidation of the financial statements of Changan Suzuki.

(3) Investment of the Company

I Analysis of the Company's investment

The Company acquired 50,000,000 shares of Southwest Security Company ('SSC") at RMB50,000,000 in 1999. The registered capital of SSC is RMB 1,128,209,900. The Company's investment accounted for 4.43% of the total registered capital of SSC.

II Use of proceeds from share issue

As approved by the China Securities Regulatory Commission under the State Council in October 1996 the Company issued 250,000,000 B shares to overseas qualified investors and raised RMB585,280,000. In May 1997, the Company was also approved by the China Securities Regulatory Commission to issue domestic public RMB common stocks of 120,000,000 shares and raised RMB748,850,000.

RMB338,630,000 of the share issue proceeds mentioned above has been used in 1996 (For details, please refer to the 1996 Annual Report), Rmb442,590,000 in 1997 (For details, please refer to the 1997 Annual Report) and Rmb121,057,000 in 1998 (For details, please refer to the 1998 Annual Report).

The use of the proceeds from the issuance of shares in 1999 is as follows (Rmb’000):

	Investments Undertaking	Actual Investments	Proceeds from share issue used	Project Stage	Estimated Revenue
I	Automobile production line	Automobile production line	9,831		1. “8th 5-year-plan” Automobile technology
	1	“8th 5-year-plan” automobile technology upgrade	5,294	near completion	upgrade: the annual profit is expected to increase by RMB255,000,000
	2	Automobile production for 150,000 units project	4,537	in progress	after completion .
II	Engines production line		30,969		2. “8th 5-year-plan” engine technology
	1	“8th 5-year-plan” engines technology upgrade	19,743	near completion	upgrade: the annual profit is expected to increase by RMB62,000,000 after completion.
	2	Engine production for 150,000 units project	11,226	in progress	3. 150,000 units project: the annual profit is expected to increase by
III	Construction of technology development center	Construction of technology development center	0		RMB595,000,000 after completion
IV	Additions to working capital and repayment of loans	Additions to working capital and repayment of loans	0		
	Total		40,800		

As of 31 December 1999, share issue proceeds not utilized amounted to RMB391,053,000, which has been placed with banks as current or time deposits. The use of proceeds from share issued is in line with the prospectus and the resolution in shareholders meeting.

III Use of funds other than from share issued (RMB’000):

	Investment Item	Funds injected	Project stage	Estimated Revenue
I	Automobile production line	35,933		1. “8th 5-year-plan” automobile technology
1	“8th 5-year-plan” automobile technology upgrade	9,864	near completion	upgrade: the annual profit is expected to increase by

2	Automobile production for 150,000 automobiles project	26,069	in progress .	RMB255,000,000 after completion

II	Engines production line	22,754		2. "8th 5-year-plan" engine technology upgrade: the annual profit is expected to increase by RMB62,000,000 after completion.
1	"8th 5-year-plan" engines technology upgrade	2,135	near completion	
2	Engine production for 150,000 units project	20,619	in progress	3. 150,000 units project: the annual profit is expected to increase by RMB595,000,000 after completion
III	Construction of technology development center	2,326		
IV	Others	25,857		
	1. SC6350production line	8,394	in progress	4. SC6350 production line: the annual profit is expected to increase by RMB 250,000,000 after completion
	2. Engines "Shuang Jia" project	11,032	in progress	
	3. Construction of Changan Technology centre.	1,556	Completed	
	4. Other expenses relating to 150,000 units project	4,875	Completed	
	Total	86,870		

(4) The impact to the Company on China's entry into WTO.

China's entry into the World Trade Organization ("WTO"), will be an opportunity, as well as a challenge, to the Company. It will be more of an opportunity than a challenge. The Company has been concentrating on the development of mini vehicles for nearly 20 years, 5 groups of automobile types with more than 200 categories has been developed and a wide range of product structure, with various types and categories, has been set up. The tariff rates on imported automobiles will be reduced gradually after China's entry into the WTO. However, the constitution of the price and cost of automobiles is complicated. Tariffs are only a part of it. In addition, the reduction of tariff rates needs a process. The price of the Company's mini vehicles has already been at the level of the international market, or even lower for some types of automobiles. The advantage on price at the market of mini vehicles gives us confidence that the mini vehicles will be not be threatened on price after China entry into the WTO. The Company's mini automobiles are specially designed for the Chinese's market and the Company has a solid market basis and a sound market network. The Company's products, Change Star (SC6350), Changan Antelope (SC7101), Alto City Baby, designed with environment protection and safety devices, are quite favorable in the market. The quality and technical capacity of these products has approached or reached the leading level of the world. China' s entry into WTO will result in a broader access and a better utilization of foreign capital; adoption of foreign advanced technologies, operation conception; and management experiences; further cooperation with foreign enterprise; a faster pace toward the international market and a bigger share of the overseas market.

(5) Business plan for the coming year

I The Company's production and sales plan for 2000

The Company's 2000 production and sales plan, based on overall analysis and survey of the market, is as follows: manufacture and sell 200,000 mini vehicles (including those by Changan Suzuki), 67,000 engines to outsiders (including those supplied to Changan Suzuki).

II The investment plan for 2000

The Company plans to invest about RMB224,650,000 in new projects and construction of existing projects, as follows:

① RMB16,150,000 for the automobile production line.

Place equipment acquisition orders for the pressing workshop, mould workshop and model workshop.

② RMB165,540,000 for the engines production line.

(A) Place equipment orders, both outside and inside China, for the G series engines general assembly line and building construction.

(B) Place equipment orders for the cylinder, cylinder shell manifold production line and casting production line of G series engines, and building construction.

③ RMB25,970,000 for Technology Development Center, including orders for equipment for computer stations, survey office, and engine and automobile laboratory and the construction of outdoor pipes, roads and cable works.

④ RMB15,520,000 for SC 6350 production line

Place equipment orders for SC6350 production line.

⑤ RMB1,470,000 for "Shuang Jia" project

Place equipment orders for "Shuang Jia" project.

(6) Work Reports of the Board of Directors

I The Board of Directors held a meeting on 20 April 1999 in Chongqing Changan Hotel and resolved the following resolutions:

A 1998 annual report of the Company

B the explanatory statements for the use of proceeds from the B shares and A shares issues

C the explanatory statements for 1998 financial statements and 1999 financial budget report

D the profit distribution plan for 1998

The Directors resolved that there would be no appropriation of dividends with respect to the 1998 distributable profit.

E plan to continue engagement of the Company's auditors.

The Board of Directors resolved to continue to appoint KPMG Peat Marwick Huazhen as the Company's auditors for 1999.

F resolution concerning the change of the Company's Directors

As Mr Jingzhijin, director of the Company had retired, Mr Peng Gengming was recommend by CAC as a candidate for directorship.

Due to a change in position, Mr. Suzuki Shiyunggi no longer acts as the director of the Board. Mr Shinseki Kouyilou was nominated as a substitute for Mr. Suzuki Shiyuggi and a candidate for directorship.

G resolution to appoint and release senior management staff

According to the Company's business needs and upon the recommendation of the general manager, Mr. Chen Yongqiang was appointed as deputy general Manger. Mr. Jing Zhijin retired, and resigned as the deputy general manager. Mr. Xiang Mingqiang was assigned to another position and could no longer act as the Board's secretary.

H resolution to hold the 1998 shareholders general meeting.

The above information is published in *China Securities*, *Securities Daily* and *Hong Kong Business* on 23 April 1999.

II The Board of Directors' held a meeting on 3 August 1999 at the Chongqing Changan Hotel and resolved the following resolutions:

A. the Company's 1999 interim report.
B. the explanatory statements for the use of proceeds from share issues in the first half year of 1999.
C. Profit distribution plan for the first half of 1999.

The above resolutions were published in *China Securities, Securities Daily* and *Hong Kong Business* on 5 August 1999.

(7) Senior management personnel

I The present directors, supervisors and senior executives.

Name	Sex	Age	Term of office	Shares held (unit: number of shares) at beginning of the year	at end of the year	Position
Zhao Guohua	Male	54	3 years	4,200	4,200	Chairman of Board
Jiang Congshou	Male	57	3 years	4,200	4,200	Deputy Chairman of Board
Keijin Yamauchi	Male	56	3 years	0	0	Deputy Chairman of Board
Yin Jiaxu	Male	43	3 years	4,200	4,200	Director, General Manager
Chen Yongqiang	Male	45	3 years	0	0	Director, Deputy General Manager
Zhao Luchuan	Male	46	3 years	4,200	4,200	Director, Deputy General Manager
Wang Chongsheng	Male	41	3 years	4,200	4,200	Director, Deputy General Manager
Peng minggeng	Male	49	3 years	4,200	4,200	Director
Ying Zhanwang	Male	40	3 years	4,200	4,200	Director, Deputy General Manager
Takamitsu Watanabe	Male	58	3 years	0	0	Director
Koichiro Chikaishi	Male	51	3 years	0	0	Director
Wang Yang	Male	57	3 years	4,200	4,200	Organizer of Supervisory Committee
Zhou Xiaoying	Male	50	3 years	4,200	4,200	Supervisor
Liu Changying	Male	57	3 years	4,200	7,200	Supervisor
Liao Mingguang	Male	58	3 years	0	0	Supervisor
Yang Zhongdou	Male	60	3 years	4,200	4,200	Supervisor
Li Xu	Male	57		4,200	4,200	Deputy General Manager
Zou Wenchao	Male	36		4,200	4,200	Deputy General Manager
Yan Changyun	Male	35		4,200	4,200	Secretary of Board

II The remuneration of the Company's Directors, Supervisors and senior management for the year amounted to RMB216,750, including 11 persons receiving annual remuneration ranging RMB15,000 to RMB20,000 and 1 person receiving annual remuneration ranging RMB20,000 to RMB25,000.

During the reporting period, Mr. Zhao Guohua, Mr. Yin Jiaxu, Mr. Chen Yongqiang, Mr. Keiji Yamauchi, Mr. Koichiro Chikaishi, Mr. Takamitsu Watanabe, Mr. Yang Zhongdou did not receive any remuneration from the Company.

III During the reporting period, Mr. Jin Zhijin retired and resigned as Director. Mr. Zhang Jintang retired and resigned as Supervisor. Mr. Xiang Mingqiang was assigned to another position and resigned as Secretary of the Board of Director.

IV The Company's employees

As at 31 December 1999, the Company has a total of 8,535 staff members, including 5,874 production workers, 967 salesmen, 859 technicians, 147 finance staffs, and 688 administrative staffs. 3,058 of the staff members are college graduates or above, including 30 postgraduates and 1,258 undergraduates.
By the end of 1999, the Company had 356 retired staff members.

(8) The 1999 profit distribution plan is as follows:

Net profit of 1999 was RMB53,715,000 (under International Accounting Standards, RMB 32,742,000). RMB3,927,000 is appropriated to statutory reserve fund, RMB3,927,000 is appropriated to statutory public welfare fund, RMB77,520,000 is appropriated to voluntary reserve fund and RMB21,000,000 is appropriated to staff and workers' bonus and welfare fund. The distributable profit to shareholders, which is the lower of the profit under the PRC accounting principles and IAS is RMB 87,467,000. (including undistributed profit bought forward of RMB140,126,000)

As the construction of Company's technical center for the 150,000 Alto project and G engine project are in critical stage. In order to have adequate funds for the projects and maintain the Company's continue and rapid development, the Board of Directors resolved that no distribution of dividend in respect of the profit for 1999, and there was no plan to utilize share premium to issue bonus shares. The above resolutions will be submitted to the shareholders general meeting for approval.

(9) Other matters

I There was no change in the Company's auditors during the reporting period.

II The Company's information is published in *China Securities, Securities Daily* and *Hong Kong Business.*

6 SUPERVISORY COMMITTEE'S REPORT

(1) Supervisory committee held a meeting on 20 April 1999, the resolutions were as follow:

I The supervisory committee's report for the year of 1998

II The change of supervisors.

The above resolutions were published in *China Securities*, *Securities Daily* and *Hong Kong Business* on 23 April, 1999.

(2) In 1999, the supervisory committee attended all directors' meeting and fulfilled the monitoring duties. The Company's supervisory committee carried out the following monitoring duties in accordance with the "Company Laws" and "Articles of Association":

I Operations in accordance with the laws

Through attending the Directors' meeting, the supervisory committee performed its monitoring duties. The supervisory committee considered that the Company's decision making procedures were in compliance with the "Company Law" and the Company's "Articles of Association". A relatively complete internal control system was established. There were no violations of the laws and regulations by the Company's Directors, supervisors or senior executives during the year.

II Inspection of the Company's financial position

The Company passed the inspection. The supervisory committee considered that the Company's financial statements comply with the relevant accounting regulations and rules and truly presented the Company's financial position. The company's auditor KPMG Peat Marwick Huazhen has issued an unqualified auditors' report.

III Supervise the use of share issue proceeds

The Company passed the inspection. The supervisory committee considered that the share issue proceeds have been used consistently with the project as mentioned in the prospectus.

IV Supervise the acquisitions and disposal of assets

The Company has no acquisitions and disposals of assets during the year.

V Supervise the related parties transactions

The Company passed the inspection. The supervisory committee considered that all transactions with related parties were carried on an arm-length basis and there were no related party transactions harmful to the Company's interest.

7 IMPORTANT EVENTS

(1) Significant litigation and arbitration.

There is no significant litigation or arbitration within the reporting period.

(2) There were no punishment inflicted on the Company, Directors and Senior Executives by the supervisory body during the reporting period.

(3) During the reporting period, Mr Xiang Mingqiang, the Secretary of the Board of Directors, resigned from this position as Mr. Xiang was assigned to another position.

(4) There were no acquisitions, selling of assets or mergers during the reporting period.

(5) Signification related party transactions.

For significant related party transactions, please refer to the detailed notes on "Related party transactions" as disclosed in the Company's financial statements.

(6) The assets and finance function of the Company were fully independent from CAC, the Company maintains completeness of assets, independence of the finance function and personnel.

(7) The Certified Public Accountants issued an unqualified auditor's report.

(8) There were no over-due entrusted deposits or entrusted loans during the reporting period.

(9) There has been no change in the Company's auditor during the reporting period, KPMG Peat Marwick Huazhen Certified Public Accountants.

(10) There have been no changes in the Company's name and abbreviated name of the stock.

(11) During the reporting period, the Company made an equity investment amounting to RMB50,000,000 in Southwestern Securities Co., Ltd. ("SSC"). The registered capital of SSC is RMB1,128,219,900. The Company acquired 50,000,000 shares of SSC, accounted for 4.43% of the total shares. The above Directors' resolutions were published in *China Securities, Securities Daily* and *Hong Kong Business* on 25 November 1999.

(12) In January 1999, the joint venture Changan Suzuki Automobile Company Limited ("Changan Suzuki") increased its registered capital to US$ 70,000,000 as approved by the Ministry of Foreign Trade and Economic Cooperation. As the Company's share of equity interest in Changan Suzuki has increased to 51%. The scope of consolidation of financial statements for the year included Changan Suzuki, of which the financial statements were not included in the consolidation in 1998. As such, certain financial information for 1999 are not comparable to the last year comparative or the opening balance.

(13) Material Contracts: During the reporting period, the Company signed a loan contract secured by RMB190,000,000 fixed deposit. The Company also provided guarantees for Chongqing Changhau Automobile Wring Harness Co., Ltd., amounting to RMB3,000,000, the guarantee period is 3 years. Provided guarantee for the State Administration for Inspection of Import and Export Commodities of Chongqing, amounting to RMB10,000,000, the guarantee period is 4 years.

8 Financial Statements

(1) Auditor' report

CHONGQING CHANGAN

AUTOMOBILE COMPANY LIMITED

CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 1999

REPORT OF THE AUDITORS TO THE SHAREHOLDERS OF
CHONGQING CHANGAN AUTOMOBILE COMPANY LIMITED

(Established in the People's Republic of China with limited liability)

KPMG-A(1999)AR No.0

Scope

We have audited the accompanying consolidated balance sheet of Chongqing Changan Automobile Company Limited and its subsidiaries (collectively referred to as "the Group") as of 31 December 1999, and the related consolidated statement of income and cash flows for the year then ended.

Respective responsibilities of directors and auditors

These financial statements are the responsibility of the directors. Our responsibility is to express an opinion on these financial statements based on our audit.

Basis of opinion

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

Opinion

In our opinion, the consolidated financial statements give a true and fair view of the financial position of the Group as of 31 December 1999, and of the results of its operations and its cash flows for the year then ended in accordance with International Accounting Standards.

KPMG Peat Marwick Huazhen
Certified Public Accountants
Beijing, 18 April 2000

CHONGQING CHANGAN AUTOMOBILE COMPANY LIMITED

CONSOLIDATED STATEMENT OF INCOME
FOR THE YEAR ENDED 31 DECEMBER 1999

(Expressed in thousands of Renminbi Yuan)

	Note	1999	1998
Revenue		5,446,762	2,470,406
Cost of sales		(4,474,469)	(2,191,879)
Sales tax and surcharge		(139,475)	(48,405)
Gross profit on sales		832,818	230,122
Distribution expenses		(402,921)	(175,020)
Administrative expenses		(278,882)	(114,394)
Other income and expenses	4	30,173	20,637
Operating profit / (loss)		181,188	(38,655)
Net financing cost	6	(21,309)	(16,380)
Share of profit of joint venture		-	128,160
Profit before tax		159,879	73,125
Income tax expense		-	-
Profit after tax		159,879	73,125
Minority interest		(127,137)	-
Net profit for the year		32,742	73,125
Retained earnings, beginning of year		183,033	112,972
Transfer to reserves	17	(85,374)	(3,064)
Dividends	18	-	-
Retained earnings, end of year		130,401	183,033
Earnings per share (in Renminbi Yuan)	19	0.03	0.07

The notes on pages 8 to 28 form part of these consolidated financial statements.

CHONGQING CHANGAN AUTOMOBILE COMPANY LIMITED

CONSOLIDATED BALANCE SHEET
AS AT 31 DECEMBER 1999

(Expressed in thousands of Renminbi Yuan)

ASSETS	Note	1999	1998
Non-current assets			
Property, plant and equipment	7	2,025,062	1,015,585
Construction in progress	8	430,965	629,724
Interest in joint venture	9	-	493,209
Investment	10	50,000	-
Amount due from holding company	11	220,583	310,352
Other non-current assets	12	34,198	-
		2,760,808	2,448,870
Current assets			
Stocks	13	823,391	589,966
Accounts receivable		824,121	747,995
Notes receivable		133,968	89,582
Advances to suppliers		77,642	68,316
Amount due from holding company	11	975,294	547,121
Other receivables, deposits and prepayments		247,839	211,692
Cash at bank and in hand		1,223,591	584,959
		4,305,846	2,839,631
Total assets		7,066,654	5,288,501

The notes on pages 8 to 28 form part of these consolidated financial statements.

CHONGQING CHANGAN AUTOMOBILE COMPANY LIMITED

CONSOLIDATED BALANCE SHEET (CONTINUED)
AS AT 31 DECEMBER 1999

(Expressed in thousands of Renminbi Yuan)

EQUITY AND LIABILITIES	Note	1999	1998
Capital and reserves			
Share capital	15	1,226,666	1,226,666
Share premium	16	832,568	832,568
Reserves	17	172,222	86,848
Retained profits		130,401	183,033
		2,361,857	2,329,115
Minority interest		447,205	-
Non-current liabilities			
Interest-bearing loans and borrowings	20(b)	702,950	707,900
Current liabilities			
Interest-bearing loans and borrowings	20(a)	1,040,271	979,321
Notes payable		645,591	132,314
Accounts payable		1,199,985	647,094
Advances from customers		65,644	131,332
Other payables and accruals	21	255,344	116,058
Accrued payroll and welfare		12,461	28,417
Taxes payable	14(b)	335,346	216,950
		3,554,642	2,251,486
Total equity and liabilities		7,066,654	5,288,501

The notes on pages 8 to 28 form part of these consolidated financial statements.

CHONGQING CHANGAN AUTOMOBILE COMPANY LIMITED

CONSOLIDATED STATEMENT OF CASHFLOWS
AS AT 31 DECEMBER 1999

(Expressed in thousands of Renminbi Yuan)

	Note	1999	1998
CASHFLOW FROM OPERATING ACTIVITIES			
Cash received from sales of goods or rendering of services		4,849,843	2,553,876
Value added tax on sales received and refunds of value added tax paid		1,049,361	373,448
Other cash received relating to operating activities		211,981	104,917
Sub-total of cash inflow		6,111,185	3,032,241
Cash paid for goods and services		3,743,428	1,887,082
Cash paid to and on behalf of employees		175,380	95,496
Value added tax on purchases paid		893,631	445,035
Income tax paid		-	8,893
Taxes paid other than value added tax		91,178	61,922
Other cash paid relating to operating activities		333,132	276,132
Sub-total of cash outflow		5,236,749	2,774,560
Net cashflow from operating activities	(a)	874,436	257,681
CASHFLOW FROM INVESTING ACTIVITIES			
Net cash received from disposal of property, plant and equipment and construction in progress		19,004	10,352
Interest received		38,526	94,915
Cash received from CAC		271,438	-
Net cash inflow from acquisition of Changan Suzuki		367,875	-
Sub-total of cash inflow		696,843	105,267
Cash paid to acquire property, plant and equipment and construction in progress		336,218	282,398
Acquisition on other non-current assets		20,013	-
Cash paid to acquire investment		50,000	-
Cash paid to CAC		-	458,753
Sub-total of cash outflow		406,231	741,151
Net cashflow from investing activities		290,612	(635,884)

The notes on pages 8 to 28 form part of these consolidated financial statements.

CHONGQING CHANGAN AUTOMOBILE COMPANY LIMITED

CONSOLIDATED STATEMENT OF CASHFLOWS (CONTINUED)
AS AT 31 DECEMBER 1999

(Expressed in thousands of Renminbi Yuan)

	Note	1999	1998
CASHFLOW FROM FINANCING ACTIVITIES			
Proceeds from borrowings		405,031	1,264,330
Sub-total of cash inflow		405,031	1,264,330
Cash repayment of amounts borrowed		764,621	1,021,065
Cash payments of dividends		-	95,903
Cash payments of dividends to minority shareholders of Changan Suzuki		40,000	-
Cash payments of interest expenses		130,093	60,000
Sub-total of cash outflow		934,714	1,176,968
Net cashflow from financing activities		(529,683)	87,362
Effect of Foreign Exchange Rate Changes on Cash		3,267	-
Net Increase / (Decrease) in Cash and Cash Equivalents	(b)	638,632	(290,841)

The notes on pages 8 to 28 form part of these consolidated financial statements.

CHONGQING CHANGAN AUTOMOBILE COMPANY LIMITED

CONSOLIDATED STATEMENT OF CASHFLOWS (CONTINUED)
AS AT 31 DECEMBER 1999

(Expressed in thousands of Renminbi Yuan)

Notes to the statement of cashflows

(a) Reconciliation of Profit Before Tax to Cashflows from Operating Activities

	1999	1998
Profit before tax	159,879	73,125
Provision for bad debt or bad debt written off	54,165	1,190
Provision for stocks	11,527	3,500
Depreciation of property, plant and equipment	214,772	82,144
Amortization of other non-current assets	3,544	-
Loss on disposal of property, plant and equipment, and construction in progress	19,558	5,714
Financial expenses	29,606	13,251
Investment income	-	(128,160)
(Increase) / Decrease in stocks	(116,467)	19,609
Increase in operating receivables	(454,053)	(379,394)
Increase in operating payables	796,175	638,289
Net receipt / (payment) of value added tax	155,730	(71,587)
Net cashflow from operating activities	874,436	257,681

(b) Net Increase / (Decrease) in Cash and Cash Equivalents

Cash at the end of the year	1,223,591	584,959
Less: Cash at the beginning of the year	(584,959)	(875,800)
Net Increase / (Decrease) in Cash and Cash Equivalents	638,632	(290,841)

(c) Cash and cash equivalents

Cash and cash equivalents consist of cash at bank and in hand. Cash and cash equivalents included in the consolidated statement of cash flows comprise the following consolidated balance sheet amounts:

	1999	1998
Cash at bank and in hand	1,223,591	584,959

The notes on pages 8 to 28 form part of these consolidated financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 1999

(Expressed in thousands of Renminbi Yuan)

1 COMPANY INFORMATION

Chongqing Changan Automobile Company Limited ("the Company") was established in the People's Republic of China ("PRC") as a joint stock limited company under the Company Law of the PRC on 31 October 1996.

Pursuant to the reorganisation of Changan Automobile (Group) Co., Ltd. ("CAC"), which is a state-owned enterprise, the principal business undertakings of CAC relating to the manufacture and sale of automobiles and automobile engines together with the relevant assets and liabilities have been taken over and assumed by the Company as from the date of establishment of the Company.

The Company and its subsidiaries are hereinafter collectively known as the Group. Details of the Company's subsidiaries are included in note 27. During the year, Chongqing Changan Suzuki Automobile Company Limited ("Changan Suzuki") became a subsidiary of the Company.

Changan Suzuki was established among the Company, Suzuki Motor Corporation and Nissho Iwai Corporation. Their equity holdings at the date of establishment were 50%, 35% and 15% respectively. The establishment of Changan Suzuki was approved by the Chongqing Municipal Government on 25 May 1993 with a registered capital of US$ 29,990,000.

On 5 October 1998, the Ministry of Foreign Trade and Economic Cooperation ("MOFTEC") approved the increase of the registered capital of Changan Suzuki to US$70,000,000, and the equity ratio of the Company, Suzuki Motor Corporation and Nissho Iwai Corporation was changed to 51%, 35% and 14% respectively. The increased registered capital has been contributed on 11 January 1999 and the Company obtained a controlling interest in Changan Suzuki as from that day. Accordingly, the financial statements of Changan Suzuki are included in the Company's consolidated financial statements for the year ended 31 December 1999.

Changan Suzuki has an operation period of 30 years. The principal activity of Changan Suzuki is the manufacture and sale of Alto mini-sedans.

2 PRINCIPAL ACCOUNTING POLICIES

(a) Statement of compliance

The consolidated financial statements have been prepared in accordance with the accounting standards issued by the International Accounting Standards Committee ("IASC") and interpretations issued by the Standing Interpretations Committee of the IASC.

(b) Basis of preparation

The financial statements are presented in Renminbi rounded to the nearest thousand.

The financial statements are prepared on the historical cost basis.

The accounting policies have been consistently applied by the Group and are consistent with those used in the previous year.

(c) Basis of consolidation

(i) Subsidiaries

Subsidiaries are those enterprises controlled by the Company. Control exists when the Company has the power, directly or indirectly, to govern the financial and operating policies of an enterprise so as to obtain benefits form its activities. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control effectively commences until the date that control effectively ceases.

(ii) Transactions eliminated on consolidation

Intra-group balances and transactions, and any unrealized gains or losses arising form intra-group transactions, are eliminated in preparing the consolidated financial statements.

(d) Translation of foreign currencies

Foreign currency transactions during the year are translated into Renminbi at the exchange rates quoted by the People's Bank of China and other recognized exchange rates ruling at the transaction dates. Monetary assets and liabilities denominated in foreign currencies at balance sheet date are translated into Renminbi at the foreign exchange rates quoted by the People's Bank of China ruling at the balance sheet date. The resulting exchange differences on translation of foreign currency, except for the gains and losses relating to the transactions referred to below, are dealt with in the consolidated statement of income.

Exchange differences directly relating to the purchase or construction of property, plant and equipment before they are put in use are capitalized as part of the cost of the assets.

(e) Income tax

Income tax on the profit or loss for the year comprises current and deferred tax. Income tax is recognized in the statement of income except to the extent that it relates to items recognized directly to equity, in which case it is recognized in equity.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantially enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years.

Deferred tax is provided using the balance sheet liability method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The amount of deferred tax provided is based on the expected manner of realization or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantially enacted at the balance sheet date.

A deferred tax asset is recognized only to the extent that it is probable that future taxable profits will be available against which the unused tax losses and credits can be utilized. Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realized.

(f) Stocks

Stock is stated at the lower of cost and net realizable value.

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 sales.

Cost is based on the weighted average principle and includes expenditure incurred in acquiring the stocks and bringing them to their existing condition and location. In the case of manufactured stocks and work in progress, cost includes share of overhead based on normal operating capacity.

(g) Property, plant and equipment

(i) Owned assets

Items of property, plant and equipment are stated at cost or 1995 valuation (see note 7) less accumulated depreciation. The cost of self-constructed assets includes the cost of materials, direct labor and an appropriate proportion of production overheads.

Where an item of property, plant and equipment comprises major components having different useful lives, they are accounted for as separate items of property, plant and equipment.

All direct and indirect costs relating to the acquisition or construction of property, plant and equipment including interest costs on related borrowed funds during the construction period are capitalized as property, plant and equipment.

(ii) Subsequent expenditure

Expenditure incurred to replace a component of an item of property, plant and equipment that is accounted for separately, is capitalized with the carrying amount of the component being written off. Other subsequent expenditure is capitalized only when it increases the future economic benefits embodied in the item of property, plant and equipment. All other expenditure is recognized in the statement of income as an expense as incurred.

(iii) Depreciation

Depreciation is charged to the statement of income on a straight-line basis over the estimated useful lives of items of property, plant and equipment, after taking into account its estimated residual value. The estimated useful lives are as follows:

Land , plant and buildings	20 to 35 years
Machinery and equipment	10 to 20 years
Motor vehicles	5 to 8 years
Others	5 years

Amortization of land use right owned by Changan Suzuki is calculated on a straight line basis to write off the cost over the useful life of 30 years.

Construction of a building or plant is considered to be completed on the date when substantially all the activities necessary to prepare the asset for its intended use are complete notwithstanding any delays in the issue of the relevant commissioning certificate by the appropriate PRC authorities.

The carrying amounts of property, plant and equipment are reviewed to determine whether they are in excess of their recoverable amounts at the balance sheet date. If the carrying amount exceeds the recoverable amount, the asset is written down to the lower amount. In assessing recoverable amounts, the relevant cash flows have been discounted to their present value.

(h) Investment

Investment classified as non-current assets comprises participation in a company in which the Group neither holds, directly or indirectly, 20% or more of the voting powers nor exercises significant influence. The investment is carried at cost less any amounts written off to recognise other than temporary declines in the value of the investment. On disposal of an investment, the difference between the net disposal proceeds and the carrying amount is charged or credited to the statement of income.

(i) Other non-current assets

Other non-current assets include industrial property rights and proprietary technology.

Industrial property rights and proprietary technology are stated at cost and amortised on a straight-line basis over the beneficial period of 10 years from the date of use.

(j) Accounts receivable and other receivable

Accounts and other receivable are stated at their cost less provision for expected losses.

(k) Dividends

Dividends are recognized as a liability in the period in which they are declared.

(l) Interest-bearing loans and borrowings

Interest-bearing loans and borrowings are recognized initially at cost, net of any transaction costs incurred. Subsequent to initial recognition, interest-bearing loans and borrowings are stated at amortized cost with any difference between cost and redemption value being recognized in the statement of income over the period of the borrowings.

When borrowings are repurchased or settled before maturity, any difference between the amount repaid and the carrying amount is recognized immediately in the statement of income.

(m) Retirement benefits for employees

Contributions to retirement scheme are recognised as an expense in the statement of income as incurred. The Group is required to make contributions for its employees to a retirement scheme run by the Chongqing Municipal Government in accordance with the rules and regulations thereof. The Group' s liability with regard to this retirement scheme is limited to its contribution which is calculated based on the amount of total salaries and wages.

(n) Warranty

A provision for warranties is recognized when the underlying products or services sold. The provision is based on historical warranty data and a weighting of all possible outcomes against their associated probabilities.

(o) Accounts payable and other payables

Accounts payable and other payables are stated at their cost.

(p) Revenue

Revenue represents the invoiced value of goods supplied, excluding value-added tax, net of goods returned and trade discount. Revenue for the sales of goods is recognized when the significant risks and rewards of ownership have been transferred to the buyer, and no significant uncertainties remain regarding recovery of the consideration, associated costs or the possible return of goods.

(q) Net financing costs

Net financing costs comprise interest payable on short-term loans, interest receivable on deposits, and foreign exchange gains and losses. Interest income is recognized in the statement of income as it accrues, taking into account the effective yield on the assets. All interest and other costs incurred in connection with borrowings are expensed as incurred as part of net financing costs.

(r) Operating leases payments

Payments made under operating leases are charged to the statement of income on a straight line basis over the period of the respective leases.

(s) Research and development

Expenditure on research activities, undertaken with the prospect of gaining new scientific or technical knowledge and understanding, is recognized in the statement of income as an expense as incurred. Expenditure on development is recognised in the statement of income as an expense as incurred.

(t) Financial assets and liabilities

Adjustments are made for financial assets if their carrying amount exceeds the value realisable in the foreseeable future. Financial liabilities are stated at their carrying amounts.

3 ACQUISITIONS OF SUBSIDIARY - CHANGAN SUZUKI

As mentioned in note 1, on 11 January 1999, the Group increased its share of equity in Changan Suzuki from 50% to 51%. The acquisition was accounted for using the purchase method of consolidation. The subsidiary contributed net profit of RMB132,326,000 to the consolidated net profit for the year.

Effect of acquisition

The acquisition had the following effect on the Group’ s assets and liabilities.

In thousand of Renminbi		Acquisition of Changan Suzuki in 1999
Property, plant and equipment		705,525
Construction in progress		56,426
Stocks		128,485
Account receivables		169,210
Other receivables		7,247
Cash at bank and in hand		367,875
Interest-bearing loans and borrowings		(415,590)
Accrued payroll and welfare		(3,702)
Account payables		(160,927)
Taxes payables		(34,612)
Other payables and accruals		(84,758)
Minority interest		(360,068)
Net identifiable assets		375,111
The Group's share of the assets and liabilities before acquisition	(327,918)	
Consideration paid, through settlement of debts		47,193
Consideration paid, satisfied in cash		-
Cash acquired		367,875
Net cash inflow		367,875

4 OTHER INCOME AND EXPENSES

	1999	1998
Trade mark fee income	-	23,879
Income from processing service	17,019	14,675
Other income	4,785	2,767
Refund of local tax surcharges	30,386	-
Loss on sales of raw materials	(2,322)	(14,677)
Loss on disposal of property, plant and equipment, and construction in progress	(19,558)	(5,714)
Donations	(137)	(293)
Total	30,173	20,637

5 PERSONNEL EXPENSES

	1999	1998
Wages and salaries	106,423	90,238
Compulsory social security contributions	36,987	12,605
Total	143,410	102,843

The average number of employees during 1999 was 9,628 (1998: 8,895).

6 NET FINANCING COSTS

	1999	1998
Interest expenses	127,278	108,166
Interest income	(94,405)	(94,915)
Net foreign exchange (gain) / loss	(13,232)	1,570
Others	1,668	1,559
Total	21,309	16,380

7 PROPERTY, PLANT AND EQUIPMENT

	Land, plant and buildings	Machinery and equipment	Motor vehicles	Others	Total
Cost:					
Balance at 1 January 1999	239,702	980,559	13,717	-	1,233,978
Additions through acquisition of Changan Suzuki	238,548	705,194	4,212	15,343	963,297
Additions during the year	2,661	197,409	914	1,944	202,928
Transfer from construction in progress (Note 8)	107,065	240,844	5,053	-	352,962
Disposals	(6,543)	(61,053)	(1,624)	-	(69,220)
Balance at 31 December 1999	581,433	2,062,953	22,272	17,287	2,683,945
Representing:					
At original cost	371,121	1,599,093	20,619	17,287	2,008,120
At 1995 valuation (Note i)	210,312	463,860	1,653	-	675,825
	581,433	2,062,953	22,272	17,287	2,683,945
Accumulated depreciation:					
Balance at 1 January 1999	31,653	182,622	4,118	-	218,393
Additions through acquisition of Changan Suzuki	32,003	217,072	2,508	6,189	257,772
Charge for the year	17,572	191,470	2,810	2,920	214,772
Written back on disposals	(2,396)	(28,650)	(1,008)	-	(32,054)
Balance at 31 December 1999	78,832	562,514	8,428	9,109	658,883
Net book value:					
At 31 December 1999	502,601	1,500,439	13,844	8,178	2,025,062
At 31 December 1998	208,049	797,937	9,599	-	1,015,585

All of the Group's buildings are located in PRC. Except for the land use right owned by Changan Suzuki with a period of 30 years, the land use rights of the land on which the Group's buildings are situated were transferred to CAC by the Chongqing Municipal Government. The Company has entered into a leasing agreement with CAC for the land use rights upon the establishment of the Company for a period of 50 years.

Equipment with a net book value of RMB 654,083,000 has been pledged as securities for short-term loans (see note 20 (a)).

Buildings with a net book value of RMB 221,474,000 have been pledged as securities for long-term loans (see note 20 (b)).

Note i

The Company was established in PRC on 31 October 1996 as a joint stock limited company as part of the restructuring of CAC. On the same date, the principal business undertakings of CAC together with the relevant assets and liabilities were taken over by the Company. As required by the relevant PRC rules and regulations a valuation of the assets and liabilities to be injected into the Company was carried out at 31 December 1995 and approved by the State-owned Assets Administration Bureau and the injected assets and liabilities were reflected in the accounts on this basis. The 1995 valuation was a one-off exercise which established the deemed cost of the property, plant and equipment injected on the formation of the Company. As a result, the directors consider that the requirements of International Accounting Standard 16 "Property, Plant and Equipment" with respect to assets at carrying amounts other than cost less accumulated depreciation are not applicable.

8 CONSTRUCTION IN PROGRESS

	1999	1998
Balance at 1 January	629,724	517,811
Additions through acquisition of Changan Suzuki	56,426	-
Additions	133,290	269,893
Transfer to property, plant and equipment (Note 7)	(352,962)	(93,100)
Transfer to CAC	(34,117)	(62,904)
Disposals	(1,396)	(1,976)
Balance at 31 December	430,965	629,724

Construction in progress comprises expenditure on plant, machinery and buildings not yet commissioned at 31 December 1999.

During 1999, interest expenses of RMB 23,578,000 (1998: RMB 48,968,000) were capitalized in the cost of construction in progress.

9 INTEREST IN JOINT VENTURE

	1999	1998
Share of net assets of Changan Suzuki	-	327,918
Amount due from Changan Suzuki	-	165,291
Balance at 31 December	-	493,209

As mentioned in Note 1, the financial statements of Changan Suzuki has been consolidated in the consolidated financial statements in 1999.

10 INVESTMENT

	1999	1998
Non-current investment		
Cost of investment	50,000	-
	=======	=======

The investment represents the Group's equity investment in Southwestern Securities Co., Ltd.,("Southwestern Securities"), a limited liability company established in PRC as approved by the China Securities Regulatory Committee. The business of Southwestern Securities includes securities purchases and sales, securities underwriting, and investment consulting. The Group holds an equity interest of 4.43% in Southwestern Securities.

11 AMOUNT DUE FROM HOLDING COMPANY

Amount due from CAC

	1999	1998
Non-interest bearing portion		
Within one year (trade)	519,848	-
	519,848	-
Interest bearing portion		
Within one year (non-trade)	455,446	547,121
Over one year (non-trade)	220,583	310,352
	676,029	857,473
Total		
Within one year	975,294	547,121
Over one year	220,583	310,352
	1,195,877	857,473
	=========	=========

During 1999 interest was charged at 6%.

12 OTHER NON-CURRENT ASSETS

Industrial property rights and proprietary technologies

	1999	1998
Additions during the year	37,742	-
Less: Amortization for the year	(3,544)	-
Balance at the end of the year	34,198	-

The above industrial property rights and proprietary technology represent the production technology for advanced model of Alto mini-sedan and "Changan Star" transferred from Suzuki Motor Corporation during the year.

13 STOCKS

	1999	1998
Raw materials and consumables	354,622	305,942
Work in progress	59,169	46,630
Finished goods	401,169	229,398
Low value materials	8,431	7,996
Total	823,391	589,966
Stocks recognized as an expense for the year	3,984,072	1,914,302
Stocks stated at net realizable value	37,739	54,280

14TAXATION

(a) Income tax expenses

The income tax rate applicable to the Company and its subsidiaries is 15%. As approved by the local tax authorities, the Company and its subsidiaries, other than Changan Suzuki, file a consolidated income tax return. No provision for income tax has been made as the Company and its subsidiaries, other than Changan Suzuki, sustained a combined loss for the year prior to the share in the profits of Changan Suzuki.

The income tax rate applicable to Changan Suzuki is 15%. Changan Suzuki is fully exempted from income tax for two years starting from the first profitable year followed by a 50% exemption for the following three years. No provision has been made for income tax for the year as Changan Suzuki was within the tax holidays.

(b) Taxes payable in the consolidated balance sheet represents:

	1999	1998
Income tax (note i)	24,064	24,064
Consumption tax	215,486	142,293
Value added tax	76,824	24,700
Business tax	578	583
City development tax	18,284	19,633
Fixed asset investment directional tax	110	4,453
Property tax	-	1,224
	335,346	216,950

Note i

	1999	1998
Balance payable at 1 January	24,064	32,271
Provision for income tax for the year	-	-
Payment made during the year	-	(8,207)
Balance payable at 31 December	24,064	24,064

(c) No provision for deferred taxation has been made as the effect of all temporary differences is immaterial.

15 SHARE CAPITAL

	1999	1998
Issued and paid-up capital:		
876,666,000 A shares of RMB 1 each	876,666	876,666
350,000,000 B shares of RMB 1 each	350,000	350,000
Total	1,226,666	1,226,666

All the “A” and “B” shares rank pari passu in all respect.

16 SHARE PREMIUM

	Note	1999	1998
Balance at 1 January		832,568	1,183,044
Transfer to share capital	(i)	-	(350,476)
Balance at 31 December		832,568	832,568

(i) During 1998, the Company utilised share premium to issue bonus shares on the basis of 4 shares for each 10 shares to the exisiting 876,190,000 shares in issue as at 31 December 1997. The amount transferred from share premium to share capital is RMB 350,476,000. After the transfer of share premium to share capital, the total number of shares increased to 1,226,666,000.

17 RESERVES

	Retained by the Company		Retained by Changan Suzuki		
	Statutory reserve	Statutory public welfare fund	Reserve fund	Enterprise expansion fund	Total
Balance at 1 January 1999	43,424	43,424	-	-	86,848
Transfers from statement of income	3,927	3,927	54,060	23,460	85,374
Balance at 31 December 1999	47, 351	47,351	54,060	23,460	172,222

Transfers from the statement of income to statutory reserve and statutory public welfare fund were made in accordance with the relevant statutory rules and regulations and the Articles of Association of the Company and Changan Suzuki.

Statutory reserve

According to the Company's Articles of Association, the Company is required to transfer 10% of its profit after taxation, as determined under PRC accounting regulations, to the statutory reserve until the reserve balance reaches 50% of the registered capital.

The statutory reserve can be used to make good previous years' losses, if any, and may be converted into share capital by the issue of new shares to shareholders in proportion to their existing shareholdings. The transfer to this reserve must be made before the distribution of dividends to shareholders. This reserve is non-distributable other than in liquidation of the Company.

Statutory public welfare fund

According to the Company's Articles of Association, the Company is required to transfer 5% to 10% of its profit after taxation, as determined under PRC accounting regulations, to the statutory public welfare fund.

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

Reserve fund

According to the resolution of the Board of Directors of Changan Suzuki for the 1999 profit appropriation, reserve fund was appropriated at 34.9% of the distributable profits at 31 December 1999.

The reserve fund can be used for Changan Suzuki's working capital purposes and to make good losses incurred. The reserve fund can also be used to increase capital of Changan Suzuki, if approved. The transfer to this reserve must be made before the distribution of dividends to investors of Changan Suzuki. This reserve is non-distributable other than in liquidation of Changan Suzuki.

Enterprise expansion fund

According to the resolution of the Board of Directors of Changan Suzuki for the 1999 profit appropriation, enterprise expansion fund was appropriated at 15.1% of the distributable profits at 31 December 1999.

The enterprise expansion fund can be used for Changan Suzuki's business development purposes and for working capital purposes. The enterprise expansion fund can also be used to increase capital of Changan Suzuki, if approved. The transfer to this reserve must be made before the distribution of dividends to investors of Changan Suzuki. This reserve is non-distributable other than in liquidation of Changan Suzuki.

18 DIVIDENDS

Pursuant to a resolution of the Company's Board of Directors on 18 April 2000, no dividend is proposed in respect of the year ended 31 December 1999.

19 EARNINGS PER SHARE

Basic earnings per share

The calculation of earnings per share is based on the profit attributable to shareholders of RMB 32,742,000 (1998: RMB 73,125,000) and the weighted average number of shares of RMB 1,226,666,000 shares (1998: 1,056,709,145 shares).

20 INTEREST-BEARING LOANS AND BORROWINGS

(a) Current liabilities:

	Annual Interest rate	1999	1998
Bank loans			
Unsecured	5.94~7.188%	444,671	465,762
Secured	5.58~7.029%	595,600	440,000
Unsecured loan from CAC	0~9.36%	-	27,000
Unsecured debentures	17%	-	46,559
Total		1,040,271	979,321

Bank loans amounting to RMB 415,600,000 (1998: 280,000,000) are secured by production equipment of the Group with a net book value of RMB 654,083,000 (See Notes 7) and other bank loans amounting to RMB 180,000,000 (1998: RMB 160,000,000) are secured by bank deposits of RMB 190,000,000. The pledged bank deposits are included under other receivables in the consolidated balance sheet.

(b) Non-current liabilities:

	Annual Interest rate	1999	1998
Bank loans			
Unsecured	5.94~9.15%	157,900	627,900
Secured	7.2~9.72%	150,000	-
Loans from other companies			
Unsecured loans from CAC	6.21~8.01%	387,050	80,000
Other unsecured loans	6.66%	8,000	-
Total		702,950	707,900

Bank loans amounting to RMB 150,000,000 are secured by the Group's buildings with a net book value of RMB 221,474,000 (See Notes 7).

(c) Interest-bearing loans and borrowings are repayable as follows:

	Unsecured bank loans	Secured bank loans	Other unsecured loans	Total
Within one year	444,671	595,600	-	1,040,271
Between 1 to 2 years	19,000	74,750	8,000	101,750
Between 2 to 3 years	106,100	75,250	-	181,350
Between 3 to 5 years	32,800	-	-	32,800
Over 5 years	-	-	387,050	387,050
Subtotal	157,900	150,000	395,050	702,950
Total	602,571	745,600	395,050	1,743,221

21 OTHER CREDITORS AND ACCRUALS

	1999	1998
Provisions		
- Sales rebates	20,400	-
- Transportation expenses	9,430	6,800
- Warranty	13,816	9,000
Technology fee payable	37,462	-
Processing services payable	34,274	23,536
Staff and worker's bonus and welfare fund	24,036	-
Other payables	115,926	76,722
Total	255,344	116,058

22 DIRECTORS' EMOLUMENTS

Total directors' emoluments included in "Personnel expenses" (See Note 5) are as follows :

	1999	1998
Salaries, and retirement benefits	217	128

23 FINANCIAL ASSETS AND LIABILITIES

Financial assets of the Group include cash at bank and in hand, accounts receivable and notes receivable, and amounts due from holding company. Financial liabilities of the Group include interest bearing loans and borrowings, accounts payable and notes payable. The Group and the Company do not hold or issue financial instruments for trading purposes.

(i) Credit risk

Cash is placed with a group of banks with good credit ratings. Credit risk on accounts receivable, notes receivable and amount due from holding company have already been accounted for in the financial statements as they are shown net of provisions for bad and doubtful debts.

(ii) Interest risk

The interest rates and terms of repayment of the interest bearing loans and borrowings of the Group are disclosed in Notes 20. The interest rates of the amount due from holding company are disclosed in Note 11.

(iii) Fair value

The fair values of cash at bank and in hand, accounts receivables, notes receivable, amounts due from holding company, loans and borrowings, accounts payable and notes payable are not materially different from their carrying amounts.

24 CONTINGENT LIABILITIES

At 31 December 1999, there were contingent liabilities in respect of guarantees given by the Group to banks for the following entities.

	Guaranteed liabilities	
	1999	1998
Chongqing Lier Changan Automobile Decorating Co., Ltd.	-	5,250
State Administration for the Inspection of Import and Export Commodities of Chongqing	10,000	-
Chongqing Changhua Automobile Wiring Harness Co., Ltd.	3,000	-
	13,000	5,250

25 COMMITMENTS

(a) Capital commitments

Outstanding capital commitments of the Group to purchase new buildings, plant and machinery at 31 December 1999 not provided for are as follows:

	1999	1998
Contracted	361,162	396,005
Authorized but not contracted	2,595,029	2,580,040
Total	2,956,191	2,976,045

(b) Operating lease commitments

According to a land use right agreement entered between the Company and CAC on 30 June 1995, the Company is required to pay CAC an annual land use fee of RMB1,692,000 for a period of 50 years. Effective 1 August 1998, following the acquisition of certain assets and liabilities of Chongqing Jiangling Engine Co., Ltd. by the Company, the Company has taken over and assumed the rights and obligations of Chongqing Jiangling Engine Co., Ltd. in its land use right agreement entered with CAC (with no specified lease term). As a result, the Company is required to pay CAC an annual land use fee totaling RMB9,315,000 as from 1 August 1998.

26 RELATED PARTIES

The directors of the Company consider CAC is the holding company. The Group has entered into the following transactions with CAC and its subsidiaries during 1999.

(a) Summary of the significant transactions entered into between the Group and CAC group during the year:

	1999	1998
Sales to CAC's branches and subsidiaries	1,418,274	23,525
Purchases from CAC	291,509	105,293
Interest income from CAC	55,879	49,055
Processing service provided by CAC	40,150	16,800
Trademark fee to CAC	6,980	4,527
Land use right fee to CAC	8,473	9,315
Management services provided by CAC	-	3,915
Disposal of property, plant and equipment to CAC (at cost)	48,609	71,238

(b) The outstanding balances with related parties as at 31 December 1999 are as follows:

(i) The outstanding balances with CAC are disclosed in Note 11.

(ii) The outstanding balances with other CAC group companies are as follows:

	1999	1998
Accounts receivables	20,610	31,887
Accounts payables	(45,399)	(11,642)

27 SUBSIDIARIES

The particulars of the Company' s subsidiaries, all of which are limited companies established and operating in PRC are as follows:

Name	Registered capital '000'	Percentage of interests held by the Company	Principal activities
Chongqing Changan Automobile Import and Export Company	RMB 10,000	100%	Import and export, wholesale and retail of automobile spare parts
Chongqing Changan Automobile Sales Company	RMB 48,500	100%	Sale of automobiles, engines and spare parts
Jiangling Electro-mechanical Company	RMB 934	100%	Wholesale and retail of automobile spare parts
Chongqing Changan Suzuki Automobile Company	USD 70,000	51%	Manufacture and sale of Alto automobile
Chongqing Changan Advertising Company	RMB 600	100%	Advertise and sales of advertisement materials

28 COMPARATIVE FIGURE

Certain comparative figures have been reclassified in order to conform with the current' s presentation.

29 IMPACT OF IAS ADJUSTMENTS ON THE CONSOLIDATED PROFIT AFTER TAXATION AND SHAREHOLDERS' FUND

The statutory accounts of the Group are prepared in accordance with the "Accounting Regulations for Companies Limited by Shares", and the "PRC Accounting Standards for Business Enterprise". These accounting principles and standards differ in certain significant respects from International Accounting Standards ("IAS"). The effects of these differences on the consolidated profit after taxation for the year ended 31 December 1999 and the shareholders' funds at that date are summarised as follows:

	Consolidated Profit after taxation		Shareholders' funds	
	1999	1998	1999	1998
	RMB' 000	RMB' 000	RMB' 000	RMB' 000
As reported in the accounts of the Group under PRC accounting standards and regulations	53,715	16,572	2,373,590	2,340,875
Staff and worker's bonus and welfare fund of Changan Suzuki charged against profit after taxation	(21,000)	-	-	-
Amortisation of goodwill arising on consolidation	858	-	(19,745)	-
Adjustment for amortisation of pre-operating expenses in Changan Suzuki	1,147	-	-	-
Provision for doubtful debts, stocks and warranty expenses	-	53,937	-	-
Exchange gain of Changan Suzuki taken to capital surplus	-	-	14,660	-
Adjustments for share of Changan Suzuki's reserves and results	-	(4,330)	-	16,720
Reversal of revaluation surpluses of long term assets relating to the revaluation made in 1995	-	8,674	(7,877)	(28,480)
Other miscellaneous adjustments	(1,978)	(1,728)	1,229	-
As restated in conformity with IAS	32,742	73,125	2,361,857	2,329,115

9 Other information

(1) First registration date 31 October 1996

	Registered address	No. 309, Nan Cheng Road Nan An District Chongqing
(2)	Business license number	Yu Jing No.28546236-3
(3)	Tax registration number	Guo Shui Chong Zi No. 51021120286320X
(4)	Trustee for non-circulated shares	Shenzhen Securities Registration Company Limited

(5) Name and address of the auditors for the reporting period:

International and domestic auditor

KPMG Peat Marwick Huazhen
Unit 1608 Level 16
China World Tower 2
China World Trade Centre
No. 1, Jian Guo Men Wai Avenue
Beijing, the People's Republic of China
Post code 100004

10 Documents for inspection

(1) Financial statements with signatures and seals of the legal representative, Financial Deputy General Manager, and Accounting Supervisor.
(2) The original auditors' report with the seal and signature of the Certified Public Accountants.
(3) The original copy of the minutes of shareholders general meeting and the Board of Director meeting, and the related announcement which were published in *China Securities*, *Securities Daily*, and *Hong Kong Business*.
(4) Site for reviews: Office of the Board

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Chairman of the Board: General Manager:

Chongqing Changan Automobile
Company Limited
18 April 2000